Farm Credit Administration

1994 Annual Report

Contents

Message from the Chairman

On behalf of the Farm Credit Administration Board, I am pleased to present the 1994 annual report on the condition of the Farm Credit System and the performance of the Farm Credit Administration (FCA).

During 1994, the financial condition of the Farm Credit System improved for the seventh consecutive year and earnings were more than $1 billion for the second straight year. CAMEL ratings—the measure FCA uses to evaluate an institution's health—continue to improve. At year-end, 197 of the System's 241 lending institutions carried the highest CAMEL ratings of 1 or 2. At the same time, enforcement actions were down significantly. As of December 31, 1994, only 24 institutions were under enforcement action, representing a two-thirds decrease from 1990 when 72 institutions were under some type of enforcement action.

The System achieved a milestone during 1994 when the last of the four Farm Credit Banks to receive financial assistance, made available through the Agricultural Credit Act of 1987, made provisions to repay the assistance 11 years ahead of schedule. The bottom line is this: The System has come very far, very fast, in restoring its financial strength.

The FCA also has played a major role in the System's revitalization, which was described in a General Accounting Office (GAO) report issued in January 1994. After assessing the Agency's effectiveness as a regulator, GAO concluded that FCA has taken timely, strong enforcement actions when it documented serious problems in the institutions regulated and that our field offices assure "quality and reliability in their examinations." We could not have asked for a stronger testimonial to our efforts to perform a job well.

Much of the credit for the Agency's and the System's performance belongs to past members of the FCA Board and, in particular, to Billy Ross Brown, who guided FCA through most of 1994 as Chairman, and to his colleague, Gary Byrne, who resigned from the Board to return to the private sector on March 31, 1995. It was during their watch that the Agency began efforts to reduce burdensome regulations and policies. FCA will continue its focus on this important task. The Agency's three-pronged test for decision making will be:

1. Is it within the statute?
2. Are there implications for safety and soundness?
3. Does the decision contribute to the success of the Farm Credit System?

On a personal note, I am honored to have been selected to serve as the Chairman and CEO of the FCA, and it is a real pleasure to work once again with Doyle Cook, my fellow Board member.

Both the Agency and the System have a rich heritage of service to agriculture and rural America. As for my personal agenda, I hope to provide the quality of leadership that will contribute positively to this heritage as we face together the challenges of the 21st Century.

Chairman
Farm Credit Administration Board

Overview of Organizations

Farm Credit Administration

The Farm Credit Administration (FCA) is an independent agency in the executive branch of the U.S. Government responsible for regulating and examining the banks, associations, and related entities that constitute the Farm Credit System (FCS). Initially created by an Executive order of President Franklin D. Roosevelt in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Act). FCA promulgates regulations to implement the Act and examines FCS institutions for compliance with applicable statutes, regulations, and safe and sound banking practices. If an institution is found to be in violation of these statutes or regulations or is operating in an unsafe or unsound manner, the Agency has several enforcement options at its disposal to bring about corrective action. In addition, FCA annually examines the National Consumer Cooperative Bank (NCCB) and its subsidiary, the NCCB Development Corporation, and presents Reports of Examination to the Banking Committees of the U.S. Senate and the House of Representatives.

The Agency's headquarters is in McLean, Virginia. FCA also has regional or field examination offices at its headquarters location and in Albany, New York[1]; Marietta, Georgia; Denver, Colorado; Dallas, Texas; Sacramento California; St. Louis, Missouri; Oklahoma City, Oklahoma[1]; and Bloomington, Minnesota.

Farm Credit System

The Farm Credit System is a network of borrower-owned cooperative financial institutions and related service organizations that serves all 50 states and the Commonwealth of Puerto Rico. These institutions specialize in providing credit and related services to farmers, ranchers, and producers or harvesters of aquatic products. Loans may be made to finance certain processing and marketing activities of these borrowers. Loans also may be made to rural homeowners, certain farm-related businesses, and agricultural, aquatic, and public utility cooperatives.

On January 1, 1995, there were 241 active lending institutions in the FCS, including the following:

- Seven Farm Credit Banks (FCBs), which make direct long-term real estate loans through 71 Federal Land Bank Associations (FLBAs) and provide loan funds to 69 Production Credit Associations (PCAs), 60 Agricultural Credit Associations (ACAs), and 32 Federal Land Credit Associations (FLCAs). PCAs make short- and intermediate-term loans; ACAs make short-, intermediate-, and long-term loans; and FLCAs make long-term real estate loans.

- One Bank for Cooperatives (BC), which makes loans to agricultural, aquatic, and public utility cooperatives, and other persons or organizations owned by or having transactions with such cooperatives.

- One Agricultural Credit Bank (ACB), which has the combined authorities of an FCB and a BC. In addition, both the BC and the ACB are authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives.

The following FCS entities also are examined and regulated by FCA:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation), which is an entity owned by the FCS banks that markets the securities sold by the banks to raise loan funds.

1. FCA field offices in Albany and Oklahoma City were closed March 31, 1995.

- Farm Credit Finance Corporation of Puerto Rico, which was chartered on November 26, 1984, to provide low-interest funding (other than from the Funding Corporation) to Puerto Ricans through tax incentives offered to investors. This service corporation is wholly owned by AgFirst Farm Credit Bank.[2]

- Farm Credit Leasing Services Corporation, which provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

- Farm Credit Financial Partners, Inc., which was chartered on January 1, 1995, to provide support services to the associations affiliated with CoBank, ACB.

- AgCo Services Corporation, which was chartered on June 23, 1994, to provide management information systems and electronic data processing services to CoBank, ACB, and AgAmerica, FCB, and its affiliated associations.

- Federal Agricultural Mortgage Corporation (Farmer Mac), which provides guarantees for the timely payment of principal and interest on securities representing interests in, or obligations backed by, pools of agricultural real estate loans.

Farm Credit System Insurance Corporation

The Farm Credit System Insurance Corporation (FCSIC) was established by the Agricultural Credit Act of 1987 as an independent U.S. Government–controlled corporation. FCSIC's purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. By ensuring the repayment of FCS securities to investors, FCSIC helps to maintain a dependable source of funds for farmers, ranchers, and other FCS borrowers. FCA Board members concurrently serve as the board of directors for FCSIC; however, the FCA Board chairman cannot serve as the chairman of the FCSIC board.[3]

FCS Building Association

The FCS Building Association (FCSBA) is a U.S. Government-chartered cooperative association formed in 1981 by the FCS banks. FCSBA is responsible for acquiring, managing, and maintaining facilities to house the headquarters and field offices of FCA. Although FCSBA is owned by FCS banks, exclusive oversight of its activities is vested in the FCA Board.

2. AgFirst Farm Credit Bank was formed April 1, 1995, a result of the consolidation of the Farm Credit Bank of Baltimore and the Farm Credit Bank of Columbia.
3. Beginning January 1, 1996, current law requires FCSIC to be governed by a full-time, three-member Board of Directors independent of the FCA Board. FCSIC anticipates that implementation of the current law's requirements will significantly increase its operating costs. The Clinton administration, in its fiscal year 1996 budget, proposes to seek an amendment to current law to provide for a Board structure that will be cost-effective, ensure appropriate coordination with FCA, and have adequate authority and resources to carry out FCSIC's mission.

Farm Credit Administration Organization

Farm Credit Administration Board

The Farm Credit Administration (FCA) is managed by a full-time, three-person board whose members are appointed by the President with the advice and consent of the U.S. Senate. Board members serve a 6-year term and may not be reappointed after serving a full term or more than 3 years of a previous member's term. The President designates one of the members as Chairman of the Board.[1] The Chairman also serves as the Agency's Chief Executive Officer.

Marsha Pyle Martin was appointed to the FCA Board and designated Chairman and Chief Executive Officer by President Clinton on October 17, 1994, to a term that expires October 13, 2000. She brings to her position 33 years of experience in agriculture and agricultural finance. The Texas native, who holds a B.A. from Texas Woman's University and an M.S. from Texas A&M University, joined the Federal Intermediate Credit Bank of Texas in 1970 and in 1979 earned the distinction of being the first woman appointed to a senior officer position in the Farm Credit System. During her career with the Farm Credit Bank of Texas she gained broad management experience, providing leadership and direction for the bank's corporate relations, legal, operations and supervision, management information, human resources, marketing, and public and legislative affairs departments. She has held leadership positions with various agricultural councils and advisory committees in the State of Texas, including the Texas Agricultural Loan Mediation Program Advisory Board, the Texas Department of Commerce's Credit Advisory Committee, the Board of Directors of Texas Agricultural Lifetime Leadership, and the Texas Agricultural Cooperative Council. In 1990, she received the Cooperative Communicators Association's H.E. Klinefelter Award, the association's highest honor, in recognition of her distinguished contributions to cooperative communications.

Gary C. Byrne was appointed to the FCA Board by President Bush on December 3, 1991, to a term that expires May 21, 1996. Before joining FCA, he served as Administrator of the Rural Electrification Administration (REA) and Governor of the Rural Telephone Bank, both agencies of the U.S. Department of Agriculture. As REA Administrator, he managed an agency that approved more than $62 billion in loans to 2,116 rural electric and telephone utilities in 47 States and several U.S. territories and possessions. A native of California, Mr. Byrne served as chairman of the Bank of Alex Brown in Sacramento and also as president and chief executive officer of the Alex Brown Financial Group, a multibank holding company. He holds a B.A. from the University of Redlands and a Ph.D. from the University of North Carolina.

Doyle L. Cook was appointed to the FCA Board by President Clinton on October 5, 1994, to a term that expires May 21, 1998. He brings to this position 32 years of experience in agricultural lending, 19 of which were with various Farm Credit System (FCS) institutions. Preceding his appointment to the FCA Board, Mr. Cook served as president and chief executive officer of the Farm Credit Bank of Spokane and as an active participant on various committees of the banks of the FCS, a director of the Federal Agricultural Mortgage Corporation, and a member of the Chicago Mercantile Exchange Lender Advisory Committee. Previously, he served as president and chief executive officer of Farm Credit Services of Mid-America, senior vice president for credit for the Federal Intermediate Credit Bank of Texas, and senior vice president of the Federal Intermediate Credit Bank of Louisville. He began his career with Ralston Purina, where he worked in credit, marketing, finance, and general management for 13 years before joining the FCS. Mr. Cook, a native of Star City, Arkansas, holds a B.S. in agricultural business and an M.S. in agricultural economics from the University of Arkansas.

1. Billy Ross Brown served as Chairman of the FCA Board and Chief Executive Officer until October 17, 1994.

Officials

Dorothy L. Nichols	Chief Operating Officer
Cheryl Tates Macias[2]	Director, Office of Congressional and Public Affairs
Jean Noonan	General Counsel
Eldon W. Stoehr	Inspector General
David C. Baer	Chief Examiner and Director, Office of Examination
Suzanne J. McCrory	Director, Office of Secondary Market Oversight
Michael L. Young	Director, Office of Special Supervision and Corporate Affairs
Larry W. Edwards	Director, Office of Resources Management
Floyd J. Fithian[3]	Secretary to the FCA Board
Gail Hill	Manager, Equal Employment Opportunity

Office Structure

FCA Board

- Responsible for Agency policy, promulgation of regulations to implement the Farm Credit Act of 1971, as amended, and enforcement activities.
- Provides for the examination and supervision of the Farm Credit System (FCS), including the Federal Agricultural Mortgage Corporation (Farmer Mac).
- Oversees the FCS Building Association.

Secretary to the Board

- Processes all matters that go to FCA Board members.
- Ensures compliance with various public disclosure laws.
- Manages the day-to-day operations of the Office of the Board.

Office of the Chief Operating Officer

- Manages the day-to-day operations of the Agency.
- Supervises development and controls implementation of the Agency budget and operating plan.
- Serves as liaison to the FCA Board for development of regulations and Board policies.

Office of Congressional and Public Affairs

- Coordinates and disseminates Agency information to Congress, other Federal agencies, FCA's various publics, including FCS institutions, and Agency employees.
- Develops and monitors legislation pertinent to FCA and FCS, serves as the Agency's congressional liaison, and prepares testimony for the Chairman and other Agency officials.
- Fulfills the Agency's responsibilities under the Freedom of Information and Privacy Acts.

Office of General Counsel

- Provides FCA with legal services and support for supervision and examination of FCS institutions; development and promulgation of regulations and legislative activities; prosecution and defense of civil litigation; enforcement of applicable laws and regulations; implementation and administration of receiverships; oversight of Farmer Mac; and general corporate, personnel, and administrative matters, and ethics.

2. Christine D. Quinn served as Acting Director of the Office of Congressional and Public Affairs until April [illegible]
3. Curtis M. Anderson served as Secretary to the FCA Board until November 18, 1993.

Office of Inspector General

- Conducts independent audits, inspections, and investigations to monitor FCA program. and operations and to detect potential fraud, abuse, and mismanagement.
- Provides reports to FCA's Chairman, Board, and managers and to Congress.
- Reviews legislation and regulations and makes recommendations in semiannual reports to FCA's Chairman, Congress, and the public (upon quest).

Office of Examination

- Provides regulation and oversight of FCS through examination, supervisory programs, and regulatory standards that promote safe and sound operations and ensure compliance with applicable laws and regulations.
- Exercises examination and oversight programs for a portfolio of FCS institutions through two regional offices and nine field offices.
- Manages a program of regulatory and examination policy formulation and supports key headquarters operations.

Office of Secondary Market Oversight

- Provides for the general supervision of the safe and sound performance of Farmer Mac, using examinations, general rulemaking, and enforcement authorities.

Office of Special Supervision and Corporate Affairs

- Makes recommendations to the FCA Board regarding corporate restructuring among FCS institutions, for initiating enforcement actions against problem FCS institutions, and for assessing the overall risk environment for planning and regulatory purposes.
- Conducts analyses of financial and economic conditions with potential impact on FCS institutions and monitors trends in their performance.

Office of Resources Management

- Provides administrative management and services to the Agency, including fiscal, human, and information resources, contracting, and procurement.
- Serves as liaison to the FCS Building Association.

Equal Employment Opportunity

- Provides program leadership in efforts to achieve and manage a diverse workforce.
- Encourages awareness of and respect for diversity in the workplace.
- Focuses on preventing employment discrimination and on processing discrimination complaints.

Farm Credit Administration Performance Report

Management Overview[1]

This year's annual report includes the audited financial statement of the Farm Credit Administration (FCA) for fiscal year (FY) 1994.[2] The Chief Financial Officers Act of 1990 (CFO Act) mandated certain Federal agencies to develop externally audited financial statements that provide information useful to Congress, Government officials, and the public. Although FCA is not required to comply with the reporting requirements of the CFO Act, FCA management supports the Act's overall intent and has voluntarily applied its standards to FCA.

During FY 1994, FCA management worked to improve overall management of the Agency and enhance its ability to deal effectively with a constantly changing environment. FCA is aggressively reviewing options to effect cost savings while maintaining its ability to ensure a safe and sound Farm Credit System (FCS). In this regard, the Agency prepared its first consolidated strategic plan, a document that resulted from the combined efforts of the FCA Board and Agency staff to define key goals and objectives for the organization during FY 1994. The FY 1994 strategic plan was a first step toward an ongoing key objective to improve the planning and implementation process. FCA is currently operating under the FY 1995–2000 Strategic Plan, which contains three goals to achieve the Agency's vision for 2000:

1. Minimize risk to the FCS customers/shareholders, the investors in FCS obligations, and the Insurance Fund.
2. Reduce the burden of FCA's regulations and policies.
3. Establish an FCA that works better and costs less.

The Agency has begun to develop and refine performance measures for all program areas as required by the Government Performance and Results Act of 1993 (GPRA), and management fully intends for FCA to be in compliance with GPRA requirements well before the FY 1998 deadline. The Agency created task forces to evaluate and streamline processes across all functional areas, and management took significant steps to improve FCA's financial management system and internal controls.

FCA receives virtually all funds for administrative expenses from the Farm Credit System institutions it regulates and examines. In line with management's vision of an FCA that works better and costs less, the Agency incurred total obligations in FY 1994 of $37,978,206 against available funds of $41,476,872. The difference of $3,498,666 for FY 1994, plus prior year deobligations of $783,134, will be returned to the FCS during FY 1995 through reduced FY 1995 assessments billed to FCS institutions. Additionally, the Agency's $732,281 net investment in an employee health insurance rate stabilization fund will be returned to the FCS during FY 1995 because the fund was liquidated.

Program Highlights for FY 1994

In its FY 1994 Strategic Plan, FCA identified 10 strategic goals to be addressed during the fiscal year in support of its mission. The Agency's overall objective was to provide regulatory oversight for the FCS while controlling risk, reducing costs, and improving services, both internally and externally. Significant efforts were undertaken and accomplishments realized in support of this objective during the year. The following sections highlight notable accomplishments.

1. The material on the Farm Credit Administration in the Management Overview is based on fiscal year 1994 (October 1, 1993 through September 30, 1994).
2. See page 59 for the FY 1994 FCA Annual Financial Report.

Regulatory Oversight

During FY 1994 the FCA Board established a framework for the development of regulations with the adoption of a Policy Statement on Regulatory Philosophy. The statement declares that the FCA will work to eliminate outdated regulations and ensure that its regulations implement the purposes of the law without unnecessary cost or burden. The FCA Board also issued a Statement on Regulatory Burden, seeking public comment on the appropriateness of certain requirements imposed on the FCS. Together, these Board actions are designed to ensure that FCA regulations are up to date, provide clear direction, and do not place an undue burden on FCS institutions.

Communication was a key focus during the year, as evidenced by congressional testimony on several issues and a series of meetings with board chairmen and presidents of FCS institutions, which permitted the exchange of information on topics ranging from the Agency's internal operations to current regulatory issues.

In preparation for implementation of a program to obtain measured feedback from FCS institutions on the quality and consistency of the Agency's examination and enforcement processes, FCA's Office of the Inspector General conducted a survey of FCS institution boards and management to serve as a baseline. In addition, the FCA Board and senior management meet regularly with FCS institution boards and management to exchange information on current FCA/FCS issues, and FCA issued a comprehensive report comparing financial performance ratios of the FCS to commercial banks.

Risk Control

Agency initiatives focused on early identification of problems. For example, regulations were revised to better identify risk, and the *FCA Examination Manual* was rewritten to reflect changes taking place in the FCS. These initiatives considered recent changes in the financial industry and FCS institutions' development of innovative products and services, while ensuring that safety and soundness concerns were addressed.

Also during FY 1994, FCA completed the first phase of a high-priority risk assessment project designed to identify and describe risks facing the FCS. Task forces studied these areas and identified two high priority risks for further study—changes in farm policy and the use of financial derivatives.

Agency initiatives such as those above provide FCS institutions with regulatory oversight and effective examinations; this approach by the Agency is designed to prevent or mitigate credit and financial problems within the FCS.

Operational Efficiencies

FCA conducted a total of 216 examinations during FY 1994 and plans to conduct 260 and 257 examinations in FY 1995 and 1996, respectively. To use its examination workforce most efficiently, FCA conducts off-site examinations on low-risk institutions, identified by CAMEL ratings and the total dollar value of institution assets.[3] FCA-assigned CAMEL ratings evaluate capital adequacy, asset quality, management, earnings, and liquidity and are similar to those used by other Federal regulators of financial institutions. Ratings are on a scale of 1 to 5, where 1 indicates well-managed institutions that are basically sound in every respect and 5 indicates institutions with an extremely high immediate or near-term probability of failure. The percentage of FCS institutions rated 3 or worse dropped from 55 percent at the end of 1990 to 16 percent at the end of 1994. The off-site examination program was expanded significantly during FY 1994; 25 examinations were completed, compared with six off-site examinations completed in FY 1993

3. Off-site examinations are permitted only for institutions with total assets of $250 million or less

In addition to adopting this risk-based examination approach, FCA has implemented recommendations from a task force on streamlining examination processes and procedures.

Agency staff, with the FCA Board's approval, apply appropriate rehabilitative enforcement measures to FCS institutions operating in an unsafe or unsound manner or violating applicable laws or regulations. The number of problem institutions continued to decline during FY 1994, reflecting positively on the Agency's efforts to reduce exposure to the Farm Credit System Insurance Corporation (FCSIC), FCS institution stockholders, and investors in FCS securities. One receivership was terminated and significant progress was made toward winding up the remaining three receiverships. These three receiverships were terminated by mid-1995.

FCA also has maintained an ongoing evaluation of other operating areas to ensure cost-effective operations. Staff numbers are declining, reflecting a reduced examination workload and increased efficiency in administrative support functions.

Improved Services and Processes

FCA undertook efforts to improve internal services and processes in order to control risk and reduce costs. FCA established a task force during FY 1994 to review and evaluate its financial management policies and procedures and the processes that govern Agency accounting, internal controls, budgeting, and payroll. This effort requires ongoing, time-intensive reviews of current procedures and the identification of weaknesses and redundancies. As a result of fundamental improvements in FY 1994 in FCA's financial management system, the Office of Management and Budget removed the Agency from its internal controls high-risk list. FCA seeks additional improvements in its recently implemented financial management system with the goal of operating a system by the end of FY 1996 that provides better direct support to users with fewer resources.

The Agency also conducted an evaluation of its information resources management (IRM) software and hardware. The studies recommended replacing existing systems, which are becoming obsolete, with technology more compatible with the Agency's information and analysis needs. Implementation of these recommendations began in late FY 1994. Management believes additional efficiency gains will more than offset the conversion costs.

FCA Planning Process

The GPRA requires virtually all Federal agencies to develop strategic plans and annual performance goals for the program activities in their budgets. During FY 1994, FCA management integrated its strategic and operations planning processes into its long- and short-term budgeting process. Agency management has begun to develop a long-range staffing plan that seeks to provide the optimal mix of people, skills, and locations, as well as budget forecasts. The strategic plan commits FCA to accomplish its program goals through the year 2000 while implementing and maintaining effective budget controls.

The FCA Board implemented a new policy on management oversight of information and information resources. An IRM steering committee of senior FCA managers was established to provide oversight and direction that were lacking. FCA has developed a 5-year IRM strategic plan to support the objectives of the Agency's overall strategic plan.

Audits and Investigations[4]

During 1994, the Office of Inspector General (OIG) issued two audit and five inspection reports. In addition, the OIG contracted with the independent accounting firm Urbach Kahn & Werlin (UK&W) to audit FCA's September 30, 1994, financial statements. This was the initial audit of FCA's financial statements. Fieldwork was completed during 1994 and the final audit report, included as part of this annual report, was issued on March 31, 1995.

UK&W issued an unqualified opinion on "FCA's principal statements for the fiscal year ended September 30, 1994." The UK&W report on internal control structure disclosed no material weaknesses in internal controls; however, it did disclose conditions existing during fiscal year 1994 that UK&W considered to be reportable, specifically, that the controls on property management and travel policy need improvement.

The OIG audit "Survey of Farm Credit System Institutions" surveyed FCS institutions about FCA practices in examination, supervision, and regulation of FCS institutions. The audit report contains the summary results of a questionnaire that was mailed to all FCS lending institutions; it identifies areas management may wish to consider in planning and decision making. Management discussed the issues identified in the report during the information exchange meetings with FCS institutions.

The OIG audit "Survey of Commissioned Examiners" surveyed a random sample of FCA commissioned examiners and summarized issues and concerns in nine areas to provide information about the examination function for management consideration and for further study by OIG.

OIG's "Inspection of FCA's Assessment of Receiverships" concluded that (1) FCA assessments of an institution in receivership in FY 1990–1992 were equitable; (2) four institutions in receivership were not assessed for FCA administrative expenses in FY 1994 as required by FCA regulations; and (3) six institutions in receivership were not examined in FY 1990–1992 as required by the Farm Credit Act of 1971. Management agreed with the four recommendations to improve FCA's assessment process and completed final action on two of the four recommendations before the end of 1994.

OIG's "Inspection of the Board's Policy for FCA Examination Activities" concluded that current FCA Board policies for guidance on FCA examination practices were sufficient; the report did not identify any significant examination issues for which additional FCA Board policies or guidance were needed. OIG did, however, identify areas in which the Board may wish to consider increased involvement.

OIG's "Inspection of FCA's Document Processing Branch Activities" concluded that the services provided by the Document Processing Branch (DPB) adequately address the needs of users and users are satisfied with the services provided, but opportunities exist to improve delivery of services. The report noted that DPB's workload and staffing are decreasing, which offers an opportunity to reduce costs, and that the addition of an information technology center would address additional user needs.

4. The information presented in this section is based on calendar year 1994.

OIG's "Inspection of FCA's 1993 Federal Managers Financial Integrity Act (FMFIA) Report to the President and the Congress" concluded that the Agency's 1993 report, although it had room for improvement, was markedly better than from previous years reports. The report showed the Agency's commitment to comply with the intent of the OMB guidance to improve the management control review process.

OIG's "Inspection of FCA's Strategic Planning Process" was initiated at management's request to review events that occurred after an earlier audit of the Agency's strategic planning process. The OIG concluded that the Agency's FY 1994 planning process and the resulting plan were generally well received by both managers and staff; many areas of improvement identified by managers and staff were already being addressed by Agency officials; and the Agency is making progress toward implementing the Government Performance and Results Act of 1993 (GPRA). OIG expects the Agency to meet the GPRA requirements on time.

During 1994, two investigations were referred to the Department of Justice but declined for prosecution. Administrative action was then taken by the Agency. The OIG Hotline is the primary vehicle used by both Agency employees and the public for reporting fraud, waste, and abuse. The hotline received 155 complaints in 1994. Complaints were carefully evaluated, investigated, referred, or closed, as warranted.

Farmer Mac Oversight

The Federal Agricultural Mortgage Corporation (Farmer Mac) is regulated by the Office of Secondary Market Oversight (OSMO), which was established by the FCA in 1992, as required by Public Law 102-237, to provide for the general supervision of the safe and sound performance of Farmer Mac. The statute prescribes that OSMO be a separate office whose activities are generally carried out by individuals not responsible for the supervision of FCS institutions.

OSMO's principal activities during 1994 included monitoring Farmer Mac business activities, conducting the annual examination, reporting quarterly to the FCA Board on the condition of Farmer Mac and the activities of OSMO, and reporting to Congress on the capital condition of Farmer Mac. One final regulation governing financial disclosure and conflict of interest reporting for Farmer Mac directors, officers, and employees was adopted by the FCA Board in February 1994 and became effective September 13, 1994.

Regulations

One of the Farm Credit Administration's (FCA's) main responsibilities is to promulgate regulations to implement the Farm Credit Act of 1971, as amended. The following final and proposed regulations were adopted by the FCA Board during calendar year 1994.

Final Regulations

Attorney Lien Certification

The FCA Board adopted a final rule amending 12 CFR Part 615 to allow FCS institutions to document the existence of a first lien on the security for long-term real estate mortgage loans either by obtaining title insurance or an attorney's certification. Because title insurance has become the primary method used by the mortgage lending industry to ensure clear title, the amendment allows FCS institutions to choose the method of documentation that provides the most cost-effective and efficient protection. *(Adopted January 13, 1994; published January 27, 1994 (59 FR 3785); effective March 18, 1994.)*

Farmer Mac

In response to section 514 of the Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act), the FCA Board adopted a new 12 CFR Part 650 relating to reporting and disclosure of conflicts of interest by directors, officers, and employees of the Federal Agricultural Mortgage Corporation (Farmer Mac). Section 514 directs FCA to ensure that its regulations require adequate disclosure of financial information and the reporting of potential conflicts of interests by directors, officers, and employees of all FCS institutions and that such information is provided to stockholders, investors, and FCA. The final regulation requires that Farmer Mac establish and administer a conflict-of-interest policy that, in addition to providing guidance to directors, officers, and employees, ensures disclosure to shareholders, investors, and potential investors of any unresolved conflicts of interest involving Farmer Mac's directors, officers, and employees. *(Adopted February 17, 1994; published March 1, 1994 (59 FR 9622); effective September 13, 1994.)*

Debt Collection

The FCA Board adopted a new 12 CFR Part 603 to implement the Debt Collection Act of 1982 and to supplement the regulations published jointly by the General Accounting Office (GAO) and the Department of Justice (DOJ). These regulations prescribe standards for administrative collection, compromise, suspension, and termination of Agency collection actions and referral to GAO and DOJ for litigation of civil claims for money or property owed to the United States. The new regulation provides procedures for FCA to collect, compromise, or terminate collection action on claims owed the United States arising from activities under FCA jurisdiction. *(Adopted March 10, 1994; published March 21, 1994 (59 FR 13187); effective May 6, 1994.)*

Miscellaneous Technical Changes

To reflect changes in FCA organization and to update a statutory citation and a mailing address, the FCA Board adopted, as final regulations, technical amendments to 12 CFR Parts 600, 604, 605, 611, and 615 relating to the organization and responsibilities of FCA and other technical revisions. *(Adopted April 14, 1994; published April 26, 1994 (59 FR 21640); effective May 26, 1994.)*

Standards of Conduct

The FCA Board adopted final amendments to 12 CFR Part 612 relating to standards of conduct for directors and employees of institutions, excluding Farmer Mac. This action resulted from a reassessment of the regulations in light of the amendments to the Farm Credit Act of 1971 made by the Agricultural Credit Act of 1987 and the findings of a review required by section 514 of the Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act). The final rule updates the regulations to reflect statutory changes and the change in focus of FCA's regulatory oversight of personnel matters. In addition, the final rule enhances and clarifies the regulations to ensure that they fulfill the purposes of section 514 of the 1992 Act relative

to adequate reporting to stockholders, investors, and FCA of financial information and potential conflicts of interest. *(Adopted May 5, 1994; published May 13, 1994 (59 FR 24889); effective December 31, 1994.)*

Capital (Phase I)

To implement amendments to the Farm Credit Act of 1971 made by the Farm Credit Banks and Associations Safety and Soundness Act of 1992, the FCA Board adopted final amendments to 12 CFR Parts 607, 614, 615, and 620 relating to the components of permanent capital for FCS banks and associations. The effect of the regulations was to establish requirements for the capital allotment agreements between a Farm Credit Bank (FCB) and its related direct lender associations, specifying where the earnings held by the FCB and allocated to associations may be counted as permanent capital. The regulations also established how these earnings would be counted in the absence of agreements and provided a date certain for the exclusion from capital of payments made by FCS institutions to the Farm Credit System Financial Assistance Corporation in connection with the repayment of Treasury-paid interest. *(Adopted July 14, 1994; published July 22, 1994 (59 FR 37400); effective December 31, 1994.)*

Director Compensation

This final regulation, adopted by the FCA Board, amends 12 CFR Parts 611, 618, and 620 to reflect changes to the Farm Credit Act of 1971 made by the Farm Credit Banks and Associations Safety and Soundness Act of 1992. The regulation also amends the annual report disclosure rules for director reimbursable expenses to address concerns raised by Farm Credit banks regarding the equity and regulatory burden of the existing rule. Additionally, the rule amends the disclosure requirements for senior officer compensation to make the disclosures more informative and useful to shareholders. *(Adopted July 14, 1994; published July 22, 1994 (59 FR 37406); effective August 22, 1994.)*

Collateral Evaluation (Phase II)

The FCA Board adopted interim regulations amending 12 CFR Parts 614 and 618 to increase appraisal thresholds and permit flexibility in determining the appropriate collateral evaluation method. The regulations also address issues raised by the following: revisions adopted by the regulatory agencies of other Federal financial institutions, comments received in response to FCA's published request for regulatory burden comments, and amendments to regulations of the Board of Governors of the Federal Reserve (Regulation B) interpreting the Equal Credit Opportunity Act. *(Adopted September 1, 1994; published September 12, 1994 (59 FR 46725); effective January 4, 1995.)*

Report to Investors

To ensure that timely and accurate financial information continues to be disclosed to investors and the public to help them make informed decisions regarding FCS debt obligations and FCS institutions, the FCA Board adopted a new 12 CFR Part 630 governing the FCS's preparation and reporting of Systemwide financial information to investors. The final rule requires that each FCS bank, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit System Financial Assistance Corporation jointly publish periodic reports to investors and potential investors regarding Systemwide debt obligations and consolidated bank debt obligations. *(Adopted September 1, 1994; published September 12, 1994 (59 FR 46734); effective January 4, 1995.)*

FASB 114

The FCA Board adopted an interim rule amending 12 CFR Part 621 on accounting for high-risk assets. The interim rule responds to recent changes in generally accepted accounting principles by amending Part 621 to retain useful and necessary regulatory guidance for FCS institutions on how to account for, report, and disclose high-risk assets. *(Adopted November 17, 1994; published November 29, 1994 (59 FR 60886); effective December 15, 1994.)*

Proposed Regulations

Criminal Referral
The FCA Board adopted a reproposed rule amending 12 CFR Part 617 governing the referral of known or suspected criminal violations. This regulation would require FCS institutions to notify law enforcement agencies of known or suspected criminal violations that meet threshold reporting limits. FCA believed that the regulation should be reproposed because of the lapse of time since the proposed rule was published in the *Federal Register* and also to give the public another opportunity to comment because of the number of changes proposed and the level of interest in the issue. *(Adopted June 9, 1994 (by notational vote); published June 20, 1994 (59 FR 31562).)*

Financially Related Services
The FCA Board adopted a proposed rule to amend 12 CFR Parts 611, 618, and 620, defining what constitutes technical assistance, financial assistance, and financially related services and what types of activities FCS institutions are authorized to provide. The proposed regulation reduces regulatory burdens by restricting the requirement for regulatory approval for new services not previously offered, while maintaining FCA's ability to regulate safety and soundness risks. Also, the proposed rule would amend the member insurance regulation to clarify existing rules and reduce regulatory burdens. *(Adopted September 29, 1994; published October 31, 1994 (59 FR 54399).)*

Policy Statement on Regulatory Philosophy
The FCA Board adopted a policy statement on February 17, 1994, articulating its philosophy that regulations should be promulgated only as necessary to implement the law and to promote the safety and soundness of the FCS. The statement also articulates the Board's belief that safe and sound operation of FCS institutions will promote investor confidence in FCS debt securities, ensuring adequate funds at reasonable rates for lending to customers/shareholders, and will also promote customer/shareholder confidence in each cooperatively owned FCS institution, ensuring customers and capital. *(Adopted February 17, 1994; published June 22, 1994 (59 FR 32189).)*

Statement on Regulatory Burden
FCA published a final notice of intent on the action taken to improve the regulatory environment in which the FCS operates. Public comments were sought on requirements that duplicate other Government requirements, are not effective, or impose a burden that is greater than the benefit derived. (See 58 FR 34003, June 23, 1993.) Issues raised included borrower rights, capitalization, collateral evaluation, eligibility and scope of financing, and financially related services. While FCA was already considering revised regulatory approaches to many of these issues, the comments received from FCS institutions and the public brought new and valuable information to the process. The comments were referred to the task force assigned to each issue and will be reflected, as appropriate, in the final product with an analysis of the comments to be included in the proposed or final regulations published in the *Federal Register*. Comments received on issues for which there was no regulation project, were referred to work groups, which analyzed the issues and made recommendations to the FCA Board. Work on some of these issues continues, and other projects that address the regulatory burden initiative will be considered. The remaining issues will be addressed upon the Board's decision to proceed, and the public will be notified. *(Adopted March 28, 1994; published April 4, 1994 (59 FR 15664).)*

Regulatory Burden (Phase I)
The FCA Board adopted a proposed rule to repeal several regulations in 12 CFR Parts 614, 615, and 618 as part of an ongoing effort to reduce unnecessary regulatory burden on FCS institutions. Comments that FCA solicited through a notice of intent to reduce regulatory burden identified most of the regulations that FCA proposed to delete because they are outdated or impose a burden that is greater than the benefit derived. *(Adopted December 7, 1994; published January 10, 1995 (60 FR 2552).)*

Economic and Agricultural Environments[1]

The U.S. agricultural credit system functions at the intersection of two economic markets, one financial and the other agricultural. During 1994, the financial markets turned from a period of declining or flat interest rates to one of steadily rising rates. Meanwhile, agricultural markets continued to produce moderate loan demand, strong competition for new loan business, and, for borrowers, a modestly declining but still adequate capacity to service outstanding debt.

General Economic Setting

A relatively strong economy prevailed across much of the Nation in 1994; real gross domestic product averaged 4.0 percent higher and inflation, measured by the Consumer Price Index (CPI), was only 2.6 percent (year-over-year average) for the year. Gains in industrial capacity utilization mirrored a drop in the civilian unemployment rate throughout the year. Unemployment averaged 6.1 percent for the year and reached 5.4 percent in December.

These developments provided both a generally favorable domestic market for the farm sector's food and fiber commodities and improved opportunities for nonfarm earnings. Both these factors are important determinants of the repayment capacity of farm borrowers.

The financial side of the economy was dominated by the actions of the Federal Reserve Board. To head off the potential risk of rising inflation, the Federal Reserve made a series of preemptive strikes, pushing up short-term rates on six occasions, for a total increase of about 250 basis points[2] in the Federal Funds rate.[3]

The increase made the operating environment of financial institutions more challenging. Before 1994, declining funding rates and lending rates that declined more slowly had provided wide interest spreads, strong earnings, and significantly strengthened capital. The Federal Reserve's rate-increasing actions, which began in February, spread over much of the year, driving up funding costs of agricultural lenders and, with varying time lags, the rates charged to customers. The new operating environment that began to emerge included narrower interest spreads, some weakening in institutions' earnings, and potential stresses in portions of the loan portfolios.

Because of time lags and the variety among funding mechanisms, the average rates paid by farm borrowers during 1994 were up only modestly, but they rose throughout the year, portending sharply higher farm interest expenses during 1995. This key variable affecting the financial health of borrowers became progressively less favorable throughout 1994. In the long run, this cost may be offset by gains from a relatively less inflationary environment, which appears to be the positive result of the Federal Reserve's action.

Commodity Developments

Widespread favorable weather helped produce record crop output in 1994. This was a welcome turnaround from the adverse regional weather patterns that had lowered 1993 agricultural production, including total failure in some areas because of summer flooding. During 1994, neither excessive rainfall nor drought conditions occurred in most of the United States. This produced a very large harvest, substantial decreases in the level of commodity prices, and, as is normal for agricultural products, a small reduction in net income prospects.

The livestock sector saw a greater reduction in net income. Cash operating margins for livestock producers had been generally favorable for several years, but 1994 saw a surge in red

1. The information presented in this section is based on calendar year 1994.
2. A basis point is one one-hundredth of one percent.
3. The Federal Funds rate is the rate commercial banks pay to the Federal Reserve for short-term borrowing. The Federal Funds purchased are generally the excess reserves of another commercial bank.

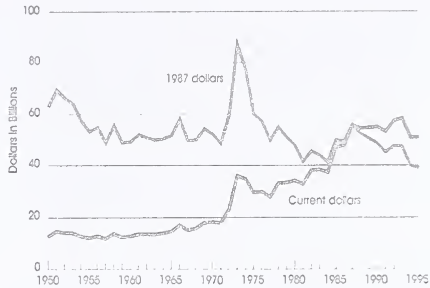
meat production that weakened cattle and hog prices. For many cattle-feeding operations, margins turned negative by mid-1994, and few, if any, pork producers covered costs during the final quarter when market prices averaged $31 per hundredweight. These developments portend some cyclic weakness in loans to livestock producers, with the duration depending on how quickly adjustments are made in production levels. The lower livestock prices may cause some repayment stress in livestock facility loans as well as in loans to ranchers who produce feeder cattle.

U.S. agricultural exports were flat in constant dollar terms during 1994. However, quarterly year-over-year patterns were far from stable, reflecting a poor 1993 harvest sandwiched between the record crops of 1992 and 1994. The second half improvement was capped with a particularly strong fourth quarter, fueled by large shipments of U.S. cotton and corn that filled a void created by a poor harvest in China. Coming on the heels of a record domestic harvest, this resulted in a relatively strong corn market and an unusually strong cotton market.

Net Income

Farm income measures showed a mixed pattern. Net cash income was down with cash expenses up more than cash receipts. However, on an accrual basis, net farm income rose with record large 1994 crops, resulting in a major build-up of inventories contrasted with a draw-down of inventory following the short 1993 harvest. Both measures remained strong in current dollars compared with the past, but this is not so in the case of deflated dollars net cash income (Fig. 1).

Figure 1
Net Cash Income from Farming, 1950–1995
(Current and Deflated Dollars)



Source: USDA/ERS: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Income and Finance Situation & Outlook, AIS-55, Dec. 1994. Data for 1994 are preliminary; 1995 data are forecasts.

Net cash farm income dropped some $7.5 billion from 1993, to $51 billion. Net cash income[4] measures the cash available to service debt or substitute for additional debt. Lower disaster and regular Government program payments and higher cash operating expenses were key factors. Government payments were down $5.4 billion; a major component of this decrease was smaller deficiency payments on the 1993 corn crop received by affected growers in 1994. Cash expenses were up, with much of the pressure coming from purchased feeds and an assortment of other operating expenses. Crop marketing receipts were some $5 billion higher than in 1993 (led by corn, soybeans, and cotton), while livestock receipts were down about $2 billion (mainly cattle and hogs).

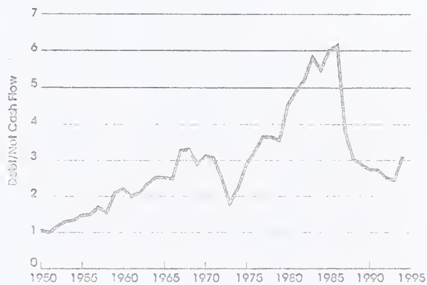
4. Net cash income is a cash accounting of commodity sales, Government payments, farm-related income, and the operating expenses associated with producing that revenue. Neither depreciation nor capital expenditures are deducted.

In contrast, net farm income[5] rose 3.6 percent to $45 billion in 1994. This is an accrual measure of the agricultural economy, eliminating the effects of inventory change and providing a better measure of actual production during the year. The gain came from a sharp increase in 1994 crop production, coupled with relatively large production gains in the livestock sectors, modestly lower average farm prices, and the relatively modest increase in expenses.

Farm Sector Financial Ratios Strong But Under Pressure in 1994

Since the late 1980s, farmers as a whole have had the capacity to service debt beyond their current borrowing levels. This financial strength is demonstrated by a major and continuing improvement in their overall financial ratios since 1985–1986 (Figs. 2 and 3).

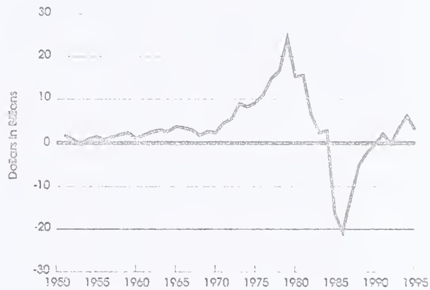
Figure 2
Ratio of Farm Business Debt to Net Cash Flow, 1950–1994



Source: USDA/ERS: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Income and Finance Situation & Outlook, AIS-56, Feb. 1995. Data for 1994 are preliminary.

The improvement trend ended in 1994, although ratios remain generally favorable. Farm business debt grew by more than $6 billion (4.3 percent) in 1994, the largest annual growth since 1981. Part of the increased debt in 1994 is attributed to the replacement of aging equipment, and some is associated with recovering from the 1993 Midwest flood and Southeast drought disasters. In addition, rising interest rates began to drive up debt service costs.

Figure 3
Annual Changes in Farm Business Debt, 1950–1995



Source: USDA/ERS: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Income and Finance Situation & Outlook, AIS-56, Feb. 1995. Data for 1994 are preliminary; 1995 data are forecasts.

5. Net farm income is an accounting of farm income and expenses on an accrual basis. Thus, net farm income has adjustments for inventory changes to reflect only the current year's output, depreciation as an expense, and recognition of other noncash income and expense items. Overall, income tends to be more stable when expressed on a cash basis, because it partly measures how farmers manage to average their sales and expenses from more than one production year.

The sector's use of its debt repayment capacity (actual business debt expressed as a percentage of maximum feasible business debt) jumped from 48 percent in 1993 to 57 percent at year-end 1994, its highest level since 1986. Two liquidity ratios (farm business debt service coverage and times-interest-earned ratio) also weakened as a result of the higher debt level and interest rates prevailing at the close of 1994.[6] These latter ratios indicate greater operator equity exposure to risk.

The 1994 pattern and relatively weak near-term outlook were enough to cause some concern, particularly if money market rates were pushed still higher or if farm revenues weakened.[7] Reduced income levels, combined with increased indebtedness and rising interest rates, suggest that a larger number of operators will have less income available to meet higher principal and interest payments on their loans. Affected farmers may experience difficulty in meeting their debt service requirements.

Other sector financial ratios remained firm—the solvency ratios (debt/asset and debt/equity) were largely unchanged. An increase of about $30 billion in farm asset values accompanied the $6 billion growth in farm business debt during 1994. This resulted in only marginal upticks in the two solvency ratios. Looking ahead, the prospect of little asset appreciation and a small growth in farm business debt portend at least a modest weakening of the solvency ratios during 1995.

Financial and Risk Management

Recent trade agreements should afford domestic producers greater access in a host of international markets. Last year, Congress enacted crop insurance reform, providing nearly all agricultural producers with the opportunity for some type of minimal disaster protection at little or no cost. These actions hold promise as a means of opening markets, lowering production risks, and providing quicker and more market-oriented price signals.

At the same time, these and other forces suggest increased market volatility and price risks for farmers. Looming budget pressures and the mandates felt by Congress after the November elections imply less supportive commodity programs. There will be some offsets, because people clearly desire more reasonable environmental regulations. Agricultural producers have come under increased scrutiny in recent years for environmental compliance, including air and water quality standards, use of chemicals, and access to water. It is not clear how much relief will occur or when, but farmers and ranchers are likely to benefit from an easing of environmental rules.

Technological advances have affected and will continue to affect what and how the sector produces and delivers its products. These advances have placed farmers in competition among themselves and with their foreign counterparts. Parts of the sector's structure are becoming more vertically integrated, and producers are increasingly turning to the use of production contracts that bypass traditional markets.

In this changing business environment, farmers are not simply producers. They are business managers who seek to maximize output, improve quality, minimize costs, and protect against risks. Likewise, agricultural lenders operate in a more fully integrated financial world than in the past, and lenders are seeking to provide the financial products and services that the sector needs. Vertical integration has challenged the ability of traditional lenders to analyze risks and provide credits, and in some cases new financial channels have bypassed them entirely.

6. The farm business debt service coverage ratio assesses the ability of farm businesses to repay interest and principal associated with farm business debt from net cash income. The times-interest-earned ratio focuses on the ability to make interest payments out of net farm income.
7. USDA's "Agricultural Income and Finance: Situation and Outlook Report" (issues AIS-55 December 1994 and AIS-[illegible] February 1995) describes the increase in debt as a cause for concern but not alarm.

Farm Debt Markets and Lender Shares

Farm business debt grew 4.3 percent during 1994, and the Farm Credit Banks (FCBs) and affiliated associations had their first growth in overall farm loan volume in 10 years. Preliminary year-end estimates show nearly a 2 percent sectorwide increase in the nationwide real estate secured portion (to $77.2 billion) and a 7.4 percent growth in the non-real estate amount (to near $70.8 billion).

Despite the growth in lending, the FCS again failed to keep pace with other lenders in share of all farm business debt, losing another half a percent in market share to 24.5 percent. The FCS growth was all in non-real estate secured debt; its volume in this market segment grew 11 percent, which produced a 0.5 percent gain in share to 16.5 percent. This gain more than offset a drop in real estate secured debt of less than 1 percent. The FCS share of the real estate market segment dropped from 32.7 percent to 31.9 percent.

In the non-real estate segment, FCS share peaked in the mid-1970s at about 27 percent, dropped to 14.2 percent at year-end 1987, and then edged irregularly upward to the 16.5 percent level at the end of 1994. In contrast, the FCS share of the real estate segment did not peak until the end of 1984, at 43.7 percent, and it has dropped steadily through 1994 to a current level of 31.9 percent.[8] Figure 4 illustrates the 30-year pattern, with data plotted at 5- and 2-year intervals.

As a group, lenders competing with the FCS obviously experienced market share changes mirroring those of the FCS, but the changes differed among the individual competitors.

Commercial banks had a gain in share on both real estate secured and non-real estate secured farm loans in 1994, which continues a pattern that began in the early 1980s. At the end of 1994, these banks held 27.2 percent of real estate secured loans, a close second to the FCS and up from 25.8 percent at year-end 1993 and only 7.4 percent at the end of 1982. They also increased their dominance in non-real estate loans to 54.0 percent, from 53.0 percent at year-end 1993 and 39.5 percent at the end of 1982 (Fig. 4).

Seller financing of real estate and merchant/dealer trade credit for non-real estate lending gained in volume and roughly maintained market shares, rounding out both sides of the respective markets with shares of about 22 percent. In the longer perspective, seller financing of real estate is down about one-third since late 1979, when it accounted for 32.2 percent, second only to the FCS. On the other hand, short-term trade credit has held virtually steady, with only a slight dip during the mid-1980s.

The institutional lender that dropped the largest market share of lending in 1994 was the Consolidated Farm Service Agency (CFSA), formerly the Farmers Home Administration, as direct lending continued to be replaced by guarantees of loans made by other lenders. The CFSA dropped 0.7 percentage points in non-real estate market share and 1.5 percentage points in non-real estate share to 7.0 percent and 8.0 percent, respectively. Both are down sharply from their respective plateaus of near 11 and 22 percent from 1986 to 1988.

8. USDA's estimate of FCS's volume excludes loans held by the Banks for Cooperatives and certain other FCS loans, for example rural home loans plus marketing and processing loans. USDA's farm sector debt estimates are for farm business operations only; any indirect FCS financing to farmers through supply cooperatives would be included in trade credit.

Figure 4

Market Shares of Farm Business Debt

Every 5 Years, 1960–1980; Every 2 Years, 1982–1994

Note: USDA's Consolidated Farm Service Agency formerly was the Farmers Home Administration; Individuals and Others is trade credit and seller financing.
Source: USDA/ERS: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Income and Finance Situation & Outlook, AIS-56, Feb. 1995. Data are as of Dec. 31; 1994 data are preliminary estimates.

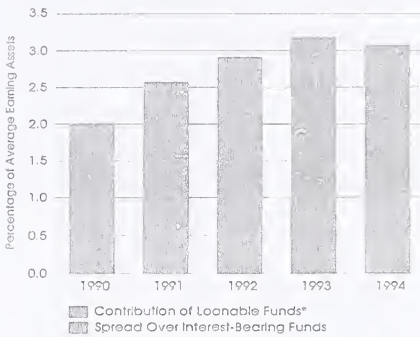
Farm Credit System Performance Report[1,2]

The banks and associations of the Farm Credit System (FCS) continued their 7-year trend of improving financial condition and performance. Earnings were more than $1 billion for the second straight year and the sources of earnings were more stable than in previous years. Asset quality continued to improve and the FCS's ability to absorb risk increased as capital grew, primarily through retained earnings.

Net earnings for 1994 were slightly more than $1 billion, down 17.4 percent from 1993. The primary reasons for the decline were more one-time expenses in 1994 than in 1993 and more one-time enhancements to income in 1993 than in 1994.

Net interest income was virtually unchanged at $1.958 billion for 1994 compared with $1.963 billion in 1993, even though the net interest margin was down 10 basis points[3] from 3.17 percent in 1993 to 3.07 percent in 1994 (Fig. 5). An increase in earning assets and in loanable funds offset the impact of narrowing spreads. Average spreads for 1994 were down 22 basis points from 1993 as the average rate on interest-bearing funds increased 52 basis points and the average rate on all interest-earning assets was up only 30 basis points. (The average rate on loans increased 24 basis points; the average rate on cash and investments, 66 basis points.) However, earning assets rose $1.93 billion, with $976 million funded by interest-free funds.

Figure 5
Net Interest Margins, 1990–1994



*Loanable funds are owned (interest-free) funds that support interest-earning assets.

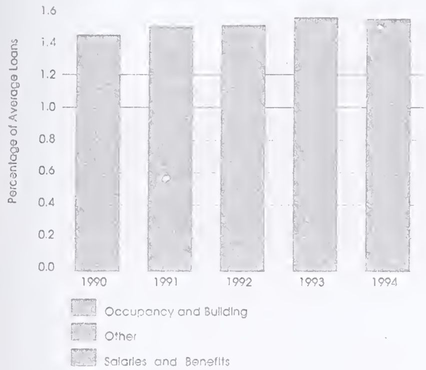
Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Operating expenses are beginning to show efficiencies generated by mergers of various Farm Credit institutions and Farm Credit district restructurings (Fig. 6). Even though expenses were up 1.4 percent over 1993, they were 1.53 percent of average loans in 1994, down slightly from 1.55 percent in 1993. Salaries and benefits, at $526.8 million, are 0.5 percent below 1993 figures. The number of FCS employees declined; however, the reduction was offset by inflation and merit increases. Occupancy and equipment expenses were also down 3.5 percent. The slight increase in total operating expenses came from an 8.2 percent increase in other operating expenses as certain banks incurred increased costs for data processing services and software development.

1. The information presented in this section includes all the Farm Credit Banks (FCBs) and associations and the three Banks for Cooperatives (BCs). The Federal Agricultural Mortgage Corporation (Farmer Mac) is not included in this analysis. Separate analyses of the FCBs and their affiliated associations, BCs, and Farmer Mac follow. The data used in the overall FCS analysis and in the combined FCBs and associations analysis were provided by the FCS institutions to the Federal Farm Credit Banks Funding Corporation. The data have been adjusted to eliminate transactions between FCS institutions.
2. The material on the Farm Credit System and Farmer Mac in this section is based on calendar year 1994.
3. A basis point is one one-hundredth of one percent.

Figure 6

Operating Expenses as a Percentage of Loans, 1990–1994



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

In 1994, the FCS experienced significant one-time expenses, including $72.4 million in merger and restructuring costs as four banks completed two separate mergers and five more banks prepared for two separate mergers in 1995. In addition, three banks recognized $24.3 million in losses on the sale of securities. Total nonrecurring expenses in 1994 were $96.7 million.

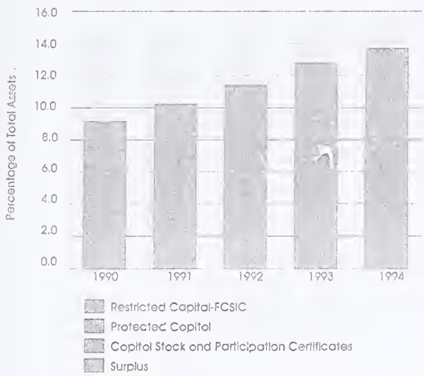
On the other hand, in 1993 the FCS recognized $103 million in income as the net cumulative effect of adopting changes in accounting for income taxes and postretirement benefits other than pensions. Additionally, one bank realized a $23.8 million gain on the sale of mineral rights. This income was partially offset by $22.7 million in expenses related to the early retirement of high-cost debt and $6 million in Farm Credit district restructuring costs. Net enhancements totaled $98.8 million. Without these nonrecurring items, earnings for 1994 were stable, down only 1.30 percent from 1993.

Given the stability in net interest income and operating expenses, the reasons for the reduction in earnings net of one-time transactions lies in other income and in the provision to the allowance accounts. Other operating income,[4] down 11.4 percent from 1993, was affected by the rising rate environment. The primary reason for the decline was a $17.4 million reduction in loan-related fee income. The increase in interest rates resulted in diminished activity in refinancings, conversions, and prepayments.

The FCS also provided 33.7 percent more funds to the allowance for loan losses account in 1994 than in 1993. Certain FCS institutions determined the need to increase their allowance to reflect credit risks associated with new loan volume and credit deterioration resulting primarily from adverse economic and weather conditions.

4. Other operating income includes loan-related fee income, fees for financially related services, income earned on Farm Credit Insurance Fund investments, mineral income, and miscellaneous income. Other gains and losses are excluded from this computation.

Figure 7
Farm Credit System Capital as a Percentage of Total Assets, 1990–1994



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

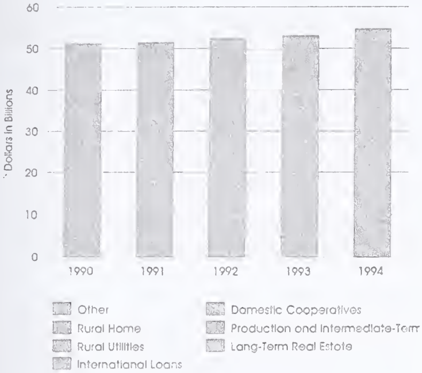
As the FCS generates and retains net earnings, total capital[5] continues to grow, increasing 8 percent during 1994 to almost $9.0 billion. As a percentage of total assets, total capital increased from 12.8 percent at year-end 1993 to 13.5 percent at year-end 1994 (Fig. 7). This growth occurred in spite of $107.6 million in net unrealized losses on available-for-sale securities at year-end 1994, compared with $29.5 million net unrealized gains in 1993.

Surplus continues to become a larger proportion of total capital. At year-end, surplus was 64.2 percent of total capital, up from 60.7 percent at year-end 1993. At the same time, protected borrower capital declined 19 percent in 1994, to 2.2 percent of total capital. All FCS institutions were in compliance with the minimum permanent capital ratio of 7 percent of risk-adjusted assets.

Total FCS loan volume, at $54.7 billion, grew 1.4 percent in 1994, which was less than the previous 2 years' growth (2.87 percent in 1993, 1.85 percent in 1992) (Fig. 8). The growth came primarily from the Farm Credit Banks (FCBs) and associations as short- and intermediate-term loans grew 6.9 percent (compared with 4.4 percent in 1993 and -1.0 percent in 1992) and long-term real estate volume remained relatively stable. Rural utility lending also rose 18.6 percent as the FCS increased its market share. International loans declined as a result of scheduled repayments of loans to the successor states of the Union of Soviet Socialist Republics.

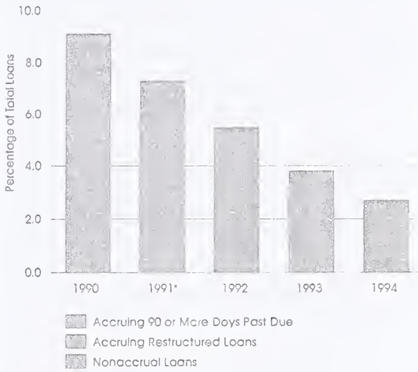
5. Total capital includes protected capital and restricted capital. Protected capital ($194.8 million at year-end 1994, $240.5 million in 1993) is composed of borrower stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated before October 6, 1988. Protection of certain borrower capital is provided under the Farm Credit Act of 1971, as amended, which requires FCS institutions, when retiring protected borrower capital, to retire such capital at par or stated value regardless of its book value. Restricted capital ($[illegible] million at year-end 1994, $769 million in 1993) represents the total assets of the Farm Credit System Insurance Corporation.

Figure 8
Farm Credit System Loan Volume, 1990–1994



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Figure 9
Nonperforming Loans in the Farm Credit System, 1990–1994



* Change in reporting policy on restructured loans caused $400 million in restructured loans to no longer be reported in 1991.

Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Credit quality continues to improve. Nonaccrual loans are down 29 percent from year-end 1993 to 1.9 percent of the total loan portfolio (Fig. 9). Nonperforming loans—which include nonaccrual loans, accruing restructured loans, accruing loans 90 or more days past due, and other property owned—also declined 29.8 percent to 2.9 percent of total loans and other property owned.

The improvement in asset quality, in conjunction with a 4.7 percent increase in the allowance for loan losses account, increased the FCS's ability to absorb risk. Nonperforming assets are 96.3 percent of the allowance for loan losses, compared to 143.7 percent at year-end 1993.

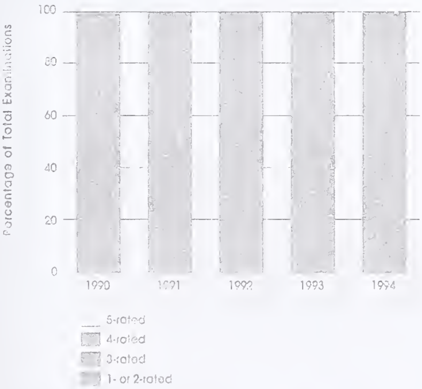
CAMEL Ratings and Enforcement

The overall improvement in the financial performance and condition of the FCS is evident in the capital adequacy, asset quality, management, earnings, and liquidity (CAMEL) ratings given as a result of the Farm Credit Administration's (FCA's) examinations (Table 1, Fig. 10). The percentage of institutions rated 3, 4, or 5 (which requires referral to the Enforcement Division of the Office of Special Supervision and Corporate Affairs) declined steadily from 54 percent at year-end 1990 to 16 percent at year-end 1994. There were no 5-rated institutions and only one 4-rated institution.

Table 1
CAMEL Ratings for Farm Credit Banks and Associations, 1990–1994
Number (Percentage) of Institutions

Rating	1990	1991	1992	1993	1994
1	2 (1)	9 (4)	6 (2)	14 (6)	31 (13)
2	92 (44)	126 (52)	157 (62)	173 (68)	166 (71)
3	75 (36)	76 (32)	78 (31)	60 (24)	36 (15)
4	37 (18)	28 (12)	12 (5)	6 (2)	1 (1)
5	3 (1)	0 (0)	0 (0)	0 (0)	0 (0)
Total	209	239	253	253	234

Figure 10
CAMEL Ratings for Farm Credit Banks and Associations, 1990–1994*



* CAMEL ratings are based on capital adequacy, asset quality, management, earnings, and liquidity. Ratings range from 1 (a sound institution) to 5 (an institution that is likely to fail).

Source: [illegible] examination reports

Enforcement Activity

In concert with this trend, enforcement activity has declined (Fig. 11). FCA has various enforcement authorities it may use to ensure that FCS institution operations are safe and sound and in compliance with applicable statutes and regulations. These authorities include the power to issue cease and desist orders, to levy civil money penalties, to remove officers and directors of FCS institutions, and to establish financial and operating reporting requirements.

The Enforcement Division is responsible for analyzing Reports of Examination on institutions that may be operating in an unsafe or unsound manner or may not be in compliance with applicable statutes or regulations. The division recommends appropriate enforcement actions to correct safety, soundness, or compliance concerns. It coordinates the preparation of enforcement documents with the Office of General Counsel and, with FCA Board approval, delivers the documents necessary to correct the causes of unsafe or unsound practices or compliance problems. Once enforcement actions have been taken, the division, in conjunction with the Office of Examination, oversees the performance of the FCS institutions to ensure compliance with the terms of the enforcement actions. The division also oversees the operations of three FCS institutions in receivership.

During the 12-month period ending December 31, 1994, the Agency entered into one order to cease and desist and two agreements with FCS institutions. By comparison, FCA entered into one order to cease and desist, four agreements, and one amended agreement in 1993. In addition, the Agency issued five supervisory letters and 13 followup letters to institutions operating under existing enforcement actions. FCA formally imposed conditions upon its approval of the mergers of two FCBs and one association during 1994.

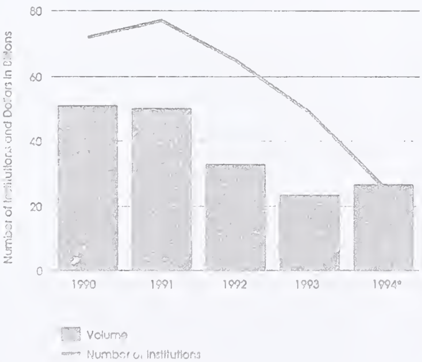
Improving financial and credit conditions, coupled with satisfactory compliance with the enforcement action, resulted in the Agency's terminating enforcement actions for 28 institutions during 1994. At the end of 1993, 49 FCS institutions with aggregate assets of $23.4 billion were under some form of enforcement action. At year-end 1994, 26 institutions with $26.6 billion in assets were under enforcement actions.

FCS Institutions in Receivership

As of December 31, 1994, only three institutions remained in receivership: the Federal Land Bank (FLB) of Jackson and the Federal Land Bank Association (FLBA) of Jackson, both in Jackson, Mississippi, and the Richmond Production Credit Association (PCA), Sugar Land, Texas. All three receiverships were concluded by mid-1995.

Figure 11

Institutions and Dollar Volume of Assets Under Supervisory Action, 1990–1994*



* Increase in 1994 due to supervisory conditions of merger on the consolidation of two banks, one of which was not previously under action.

Farm Credit Banks and Associations

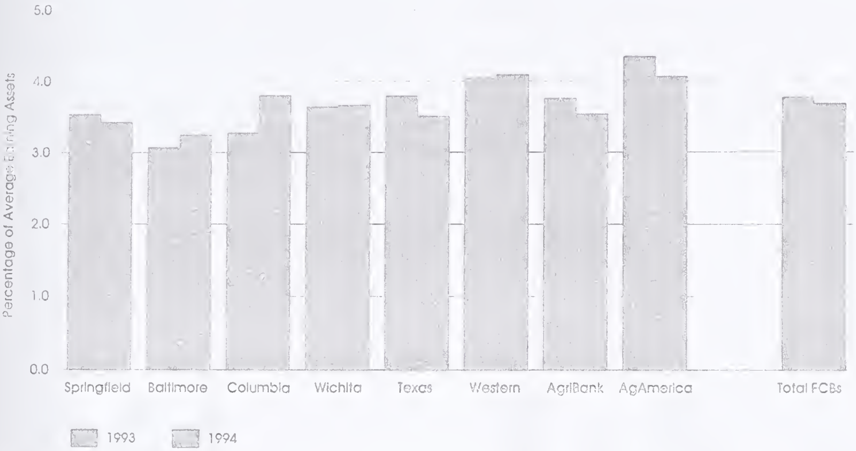
Earnings for 1994—$720.2 million—are down 21.7 percent from 1993. Most of the difference is due to $84.6 million in income reported in 1993 from changes in accounting principles. In addition, the FCBs and their associations recorded $53 million in merger implementation and district restructuring costs as four banks completed two separate mergers in 1994 and three FCBs and two Banks for Cooperatives (BCs) prepared for two mergers in 1995. Only $6 million in such costs were recorded in 1993.

Losses on the sales of securities also affected 1994 earnings. The AgAmerica district reported a loss of $10.6 million; the Texas district, $9.5 million. The Texas district's loss was partially offset by a $4.6 million gain on the sale of acquired properties.

The net interest margin was relatively stable, down only slightly from 3.77 percent in 1993 to 3.68 percent in 1994 (Fig. 12). Several districts—Baltimore, Columbia, Wichita, and Western—were able to widen their interest margins, primarily from an increase in loanable funds that offset any narrowing of net interest spreads. Loanable funds increase through earnings and through reductions in nonearning assets.

Operating expenses (which include Farm Credit System Insurance Corporation [FCSIC] premiums) were also stable, down less than 1 percent from 1993. As a percentage of average earning assets, operating expenses are down from 1.76 percent to 1.72 percent. The Western district had the largest decline in expenses, dropping 3.2 percent from 1.72 percent of average earning assets to 1.69 percent. Reductions were primarily in employee salaries and benefits. more than 5 percent. The Texas district showed the largest increase at 5.6 percent, rising from 1.74 percent of average earning assets to 1.8 percent. Salaries, benefits, and director compensation together rose 7.1 percent in this district.

Figure 12
Net Interest Margins for Farm Credit Banks and Associations, 1993 and 1994



Source: Summary Report of Condition and Performance of the Farm Credit System, Federal Farm Credit Banks Funding Corporation 1993-1994.

Continued positive earnings contributed to a strong capital position. Total capital grew 6.5 percent to 16.2 percent of total assets, up from 15.7 percent a year earlier. This growth was completely attributable to net earnings as total surplus grew 13.3 percent to 75.5 percent of total capital, while total stock fell 6.8 percent.

This capital growth occurred even with $60.9 million in unrealized losses in the investment portfolio compared with an unrealized gain of $10.4 million at year-end 1993. Districts with the largest unrealized losses include Columbia ($22.8 million, 2.1 percent of stock and surplus) and Wichita ($16.5 million, 2.[illegible] percent of stock and surplus).

The level of protected stock continued to decline. Slightly more than $41 million was retired during the year and $192 million remains in the FCBs and their affiliated associations. The largest concentrations are in the AgAmerica district ($88.4 million) and the Columbia district ($76.8 million).

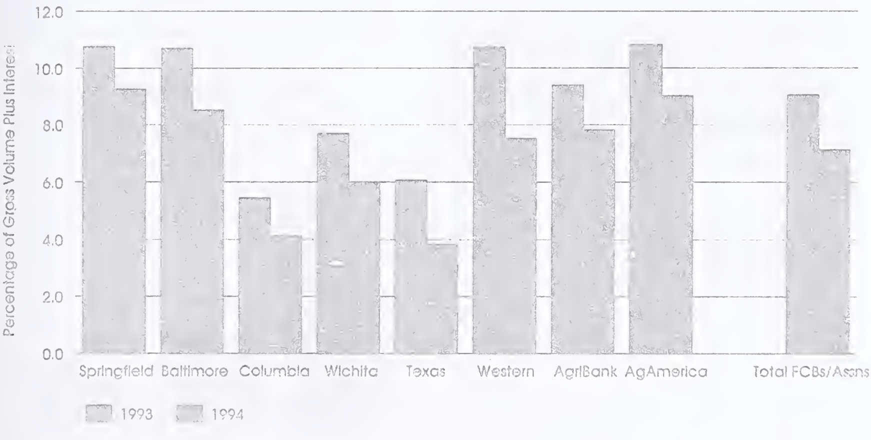
Total loan volume grew slightly in 1994, rising 1.5 percent to almost $42 billion. The increase came from short- and intermediate-term volume, which rose 6.9 percent. Long-term volume remained stable and participation in international loans declined as these loans followed their normal repayment schedule.

Credit quality improved considerably as the percentage of adversely classified loans declined from 9.1 percent at year-end 1993 to 7.1 percent at year-end 1994 (Fig. 13). All districts shared in the decline in adverse credit; however, the AgriBank district reduced its adversely classified loans by 16.9 percent, the most of any district.

Nonperforming loans (nonaccrual loans, restructured loans, and accruing loans 90 or more days past due) also fell 27.9 percent from the previous year-end. Nonaccrual loans, a subset of nonperforming loans, declined 28.6 percent, from 3.5 percent of the portfolio to 2.5 percent. The Western district made the most progress toward reducing this nonearning asset. Non-accrual loans decreased slightly more than 50 percent in this district and are down to 2.2 percent of total loans. The Columbia district has the lowest level of nonaccruals at 1.5 percent of total loans; AgAmerica, the highest at 3.4 percent, although 80 percent are current as to principal and interest.

Figure 13

Adversely Classified Loans* in All Farm Credit Districts, 1993 and 1994



* Loans classified substandard, doubtful, or loss.

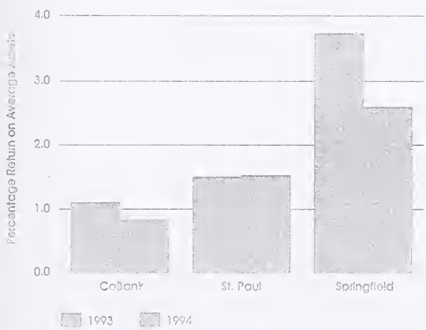
Source: Summary Report of Condition and Performance of the Farm Credit System, Federal Farm Credit Banks Funding Corporation.

Banks for Cooperatives

Earnings for 1994, at $136.3 million, are down from the previous year by almost 20 percent as two of the BCs prepare for merger (Fig. 14). While some of the decline is the result of a reduction in the net interest margin (1.9 percent in 1994, 2.1 percent in 1993), most is from a 27 percent increase in noninterest expenses. More than $19 million of the increase was the result of expenses related to the January 1, 1995, merger of CoBank, the Springfield Bank for Cooperatives, and Farm Credit Bank of Springfield to form CoBank, Agricultural Credit Bank. In addition, in the second quarter of 1994, CoBank recorded a $5.8 million expense to establish a reserve (separate from the allowance for losses account) for a potential environmental liability associated with a previously acquired property and recorded a $4.1 million loss on the sale of a mortgage-backed security.

Figure 14

Profitability of Banks for Cooperatives, 1993 and 1994*



Source: FCA Call Reports

* 1994 profitability declined in CoBank and Springfield BC as they prepared for merger

Operating expenses have remained stable over the past 2 years at 0.7 percent of average gross loans in 1994 and 1993.

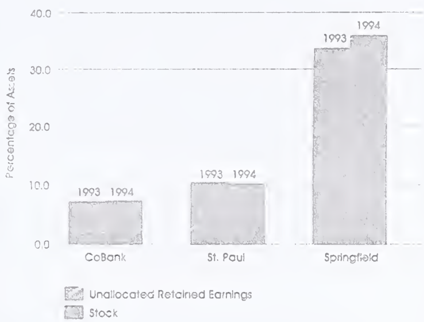
The St. Paul Bank for Cooperatives experienced an increase in net earnings of 10.8 percent to $31.2 million. The increase is primarily attributed to an increase in the net interest margin from 2 percent to 2.13 percent, despite a slight decline in average spread. The net interest margin rose because of an 8.4 percent increase in the BC's loanable funds position.

Total combined capital of $1.2 billion was 7.4 percent of total assets at year-end 1994, up slightly from 7.2 percent at year-end 1993. Year-end 1994 total capital was adversely affected by $46.7 million in unrealized losses in the investment portfolio.

Unallocated retained earnings made up 29.2 percent of total capital, down from 31.4 percent a year earlier. Unallocated retained earnings as a percent of total capital fell because of patronage dividends. Some of the patronage was paid in cash, but the majority was allocated in the form of stock and, therefore, retained in capital (Fig. 15).

Gross loan volume grew 1.9 percent to $13.6 billion. The rise in volume is attributed to an increase in rural utility lending. International loans fell slightly from scheduled repayments of loans to the successor states of the Union of Soviet Socialist Republics.

Figure 15
Member Equity—Total Capital as a Percentage of Total Assets, 1993 and 1994



Source: FCA Call Reports

Credit quality remains strong as nonaccruals fell from 0.11 percent to 0.04 percent of the loan portfolio. Total nonperforming loans are down 61 percent to 0.07 percent of the portfolio; however, accruing loans 90 or more days past due are up from $745 thousand at year-end 1993 to $5.3 million at year-end 1994.

Even though all measures of credit quality (except the increase in accruing loans 90 or more days past due) improved, the consolidated BCs added $10.9 million to the allowance account, raising it from 1.22 percent of gross loan items at year-end 1993 to 1.29 percent at year-end 1994. Allowance coverage of nonperforming loans rose from more than six times the amount of such loans to more than 17 times the amount during the same time period.

Condition of Farmer Mac

Farmer Mac has been unable to establish a successful secondary market for agricultural real estate and rural housing loans. Business activities and financial results for 1994 were generally disappointing. Farmer Mac will try new approaches, including seeking revisions to its statutory authorities, to become profitable and establish a viable secondary market.

Farmer Mac operates two programs. In Farmer Mac I, pools of agricultural real estate or rural housing loans are formed, mortgage-backed securities are created, and Farmer Mac provides a guarantee of timely payment of principal and interest to security holders. Farmer Mac may provide its guarantee only when the security is protected by a 10 percent reserve or subordinated participation interest that absorbs the first losses. In Farmer Mac II, lenders sell guaranteed portions of Consolidated Farm Service Agency or Rural Economic and Community Development[6] loans to Farmer Mac, which pools the loans and may create securities with guarantees of timely payment of principal and interest.

During 1994, Farmer Mac experienced continuing difficulty establishing the viability of its Farmer Mac I programs. In particular,

- The Farm Credit Bank (FCB) of Columbia[7] was certified as a pooler to develop a Farmer Mac Rural Home Loan Program. However, after the Federal National Mortgage Association (Fannie Mae) offered a competing initiative, the FCB of Columbia suspended its program. Farmer Mac, Fannie Mae, and the FCB of Columbia worked during the remainder of the calendar year on a joint rural lending initiative that Farmer Mac reported might be operational by the second quarter of 1995.

6. In September 1994, the U.S. Department of Agriculture announced a departmentwide reorganization, which consolidated operations of various agencies. Before the reorganization, guaranteed portions of Farmers Home Administration and Rural Development Administration loans were sold by lenders to Farmer Mac under the Farmer Mac II program.
7. On April 1, 1995, the FCB of Columbia and the FCB of Baltimore consolidated to form AgFirst Farm Credit Bank with headquarters in Columbia, South Carolina.

- For agricultural real estate loans, two poolers had been offering "open window" programs that quoted prices and terms for purchase of Farmer Mac eligible loans. These programs resulted in disappointing levels of securities activities. Prudential Securities pooled approximately $34 million in loans during 1994 and Travelers Realty purchased Farmer Mac eligible loans but chose not to create securities from these loans. Overall, the total outstanding volume of Farmer Mac I securities declined during 1994, resulting in losses higher than in the previous period.

By contrast, the Farmer Mac II program grew steadily during 1994, but the volume of business in this program remains relatively small, totaling $101 million at December 31, 1994.

Farmer Mac reported a loss of $1.3 million in 1994, and its year-end capital level was $12.2 million. Farmer Mac complied with the statutory minimum capital requirement during 1994. However, beginning in December 1996, higher statutory minimum capital requirements take effect, which will significantly increase the required amount of capital. Had the December 1996 standards been in effect at the end of 1994, Farmer Mac would have had $156,000 less in capital than the minimum required by the statute. Management does not believe Farmer Mac will meet these future requirements without selling assets and foregoing future earnings.

The Farmer Mac Board adopted a plan in August 1994 that included several new business approaches and legislative revisions to address Farmer Mac difficulties. To increase participation in its programs, Farmer Mac entered a 5-year agreement (effective November 17, 1994) with Western FCB to operate a Farmer Mac pooling program. Under this agreement, Western FCB will form a national network of agricultural lenders for whom it will purchase agricultural real estate loans for pooling in the Farmer Mac program. Western FCB has agreed to purchase up to $1.5 million of Farmer Mac nonvoting stock, the proceeds of which will be used to fund the startup costs of the pooling operation. Western FCB also pooled $71 million of loans currently held by FCS associations in the Western Farm Credit District, exchanging these loans for securities issued under the Farmer Mac I program. Farmer Mac has agreed that it will enter into, at most, one similar agreement with a pooler of agricultural real estate, making this a semi-exclusive pooling arrangement for 4 years. Farmer Mac decertified poolers who had produced no Farmer Mac I business during 1994, leaving Western FCB, Equitable AgriBusiness, and the FCB of Columbia as the certified Farmer Mac poolers for 1995.

During 1995, Farmer Mac will seek statutory revisions that would (1) enable it to purchase and pool loans, (2) eliminate the requirement of a subordinated interest or reserve on each pool of loans, and (3) delay the implementation of the statutory capital requirements until December 1999.

Farm Credit System Restructuring Activity

During the 12-month period ending January 1, 1995, the Farm Credit Administration (FCA) Board approved 15 corporate applications, which consisted of two bank consolidations, one bank merger, four association reaffiliations from one Farm Credit Bank (FCB) to another FCB, two transfers of direct lending authority from FCBs to Federal Land Bank Associations, resulting in the formation of Federal Land Credit Associations, five association mergers, and one transfer of territory between associations. In conjunction with the January 1, 1994 merger of the FCB of Louisville into AgriBank, FCB, four Agricultural Credit Associations, formerly affiliated with the FCB of Louisville, reaffiliated with the FCB of Columbia. Effective April 1, 1994, the FCBs of Omaha and Spokane consolidated to form AgAmerica, FCB, headquartered in Spokane, Washington (Fig. 16).

The Farm Credit System's (FCS's) first Agricultural Credit Bank (ACB) was chartered pursuant to section 7.0 of the Farm Credit Act of 1971, as amended, which provides for banks within a district to form ACBs. CoBank, ACB, headquartered in Denver, Colorado, was chartered January 1, 1995, from the consolidation of the National Bank for Cooperatives, the Springfield Bank for Cooperatives, and the FCB of Springfield. It provides credit to eligible cooperatives nationwide and funds to five Springfield region ACAs. The FCA Board also discharged and released the Receiver of the Coleman PCA in Receivership and cancelled the PCA's Articles of Incorporation.

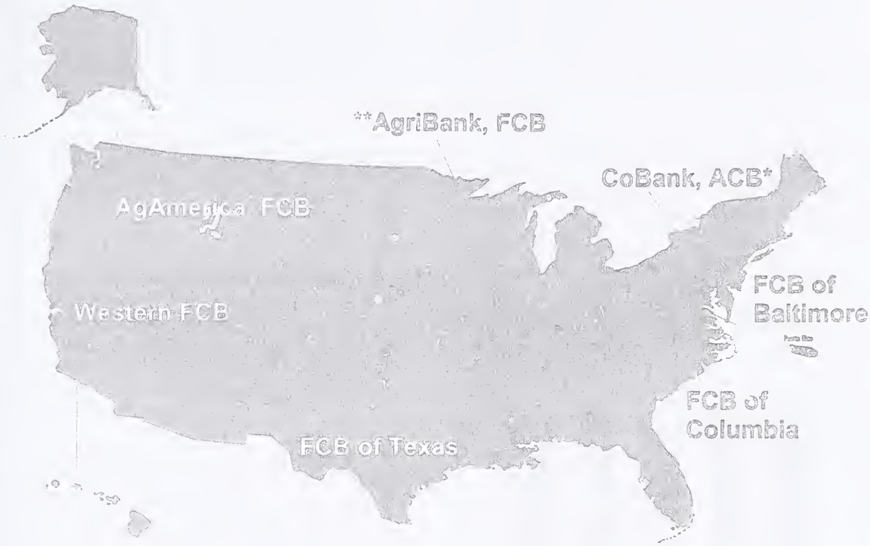
In addition to the 232 associations identified in Table 2 as of January 1, 1995, the FCS consisted of seven FCBs, one BC, one ACB, and eight service organizations compared with 238 associations, nine FCBs, three BCs, and five service organizations as of January 1, 1994. Not included in the count are the three FCS institutions (two associations and one bank) in liquidation.

Table 2
Farm Credit Association Structure[1]
(As of January 1, 1995)

Affiliation	PCA	FLBA	ACA	FLCA	Totals
CoBank, ACB*	0	0	5	0	5
FCB of Baltimore	0	0	16	0	16
FCB of Columbia	1	0	23	0	24
AgriBank, FCB	20	0	11	20	51
FCB of Wichita	18	22	0	0	40
FCB of Texas	18	48	0	0	66
Western FCB	11	1	4	11	27
AgAmerica, FCB	1	0	1	1	3
Totals	69	71	60	32	232

1. Does not include one FLBA and one PCA in liquidation.
*Authority to serve cooperatives nationwide and ACAs in former Springfield district.
Note: FLBA–Federal Land Bank Association; PCA–Production Credit Association; ACA–Agricultural Credit Association; FLCA–Federal Land Credit Association; ACB–Agricultural Credit Bank; FCB–Farm Credit Bank.

Figure 16
Chartered Territories of Farm Credit System Banks
(As of January 1, 1995)



AgAmerica, FCB - 1 ACA, 1 FLCA, 1 PCA
Western FCB - 11 PCAs, 1 FLBA, 4 ACAs, 11 FLCAs
FCB of Wichita - 22 FLBAs, 18 PCAs
FCB of Texas - 48 FLBAs, 18 PCAs
AgriBank, FCB - 11 ACAs, 20 FLCAs, 20 PCAs
CoBank, ACB - 5 ACAs
FCB of Baltimore - 16 ACAs
FCB of Columbia - 23 ACAs, 1 PCA

The Albuquerque, Eastern New Mexico, and Southern New Mexico PCAs are funded by the FCB of Texas.

The FLBAs in Alabama, Louisiana, and Mississippi generate and service loans for the FCB of Texas. The Northwest Louisiana PCA is funded by the FCB of Texas.

*Authority to serve cooperatives nationwide and ACAs in the former Springfield District.
**FC of St. Paul also has national charter.

The AG CREDIT, ACA (Ohio), Central Kentucky ACA (Kentucky), Chattanooga ACA (Tennessee), and Jackson Purchase ACA (Kentucky) are funded by the FCB of Columbia.

The Eastern Idaho ACA is funded by the Western FCB.

Funding the Farm Credit System

The Farm Credit Banks (FCBs) and the Banks for Cooperatives (BCs) obtain the majority of their loan funds through the sale of debt securities, chiefly Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes. In recent years they have also used specialized funding activities, including a medium-term note program, hedging, swaps, and other financing mechanisms.

Funding activities are handled by the Federal Farm Credit Banks Funding Corporation, which offers securities to the public through a selling group of approximately 90 investment dealers and dealer banks.

The debt securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the Farm Credit System (FCS) banks. The debt securities are the joint and several obligations of the FCBs and the BCs and are backed by their combined resources.

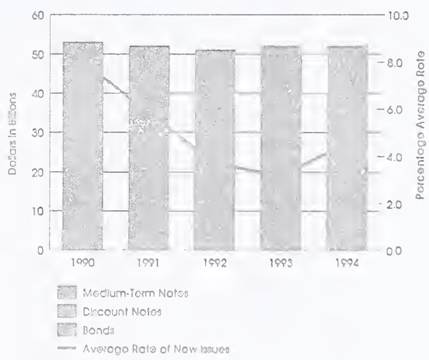
During 1994 the Federal Reserve raised the Federal Funds rate[1] six times for a total increase of 250 basis points.[2] As a result, the average cost of new debt issues of the FCS rose 136 basis points during the year from 3.18 percent to 4.54 percent. At the same time, average spreads over comparable Treasury securities increased from 5 basis points in 1993 to 11 basis points in 1994 after 6 years of narrowing margins.

Overall, debt securities outstanding rose $629 million since year-end 1993. Medium-term notes rose by $1.657 billion, offsetting a $1.263 billion drop in discount notes and a small decline in bonds. Even so, the average remaining maturity of the debt portfolio fell slightly, from 1.4 years to 1.2 years (Fig. 17).

Although discount notes outstanding had fallen by year-end 1994, there was considerable discount note activity throughout the year, with $148.4 billion in new issuances, 17.4 percent higher than in 1993. This activity resulted from the implementation of an overnight discount note program in August 1994. Slightly more than 20 percent ($30.53 billion) of 1994 issuances were from this program, which involved discount notes with maturities of 1 to 4 days. The FCS used the discount note funding to avoid funding with securities having longer maturities, which may lock in high debt costs (Table 3).

Since rates were rising in 1994 and most of the outstanding debt issues of the FCS are below-market interest rates, there was very little debt restructuring activity in 1994. However, one $1 million callable bond was redeemed and one $7 million structured note was bought back.

Figure 17
Average Rates of New Issues, 1990–1994



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements

1. The Federal Funds rate is the rate commercial banks pay to the Federal Reserve for short-term borrowing. The federal funds purchased are generally the excess reserves of another commercial bank.
2. A basis point is one one-hundredth of one percent.

Table 3

Farm Credit System Debt-Average and Annual Amounts Issued, 1990-1994
(Dollars in Millions)

Year[1]	Rate (%)	Spread in Basis Points	New Issues ($)	New Money—Paydown ($)
Discount Note Issues				
1990	7.97	N/A	94,886	(724)
1991	5.75	N/A	132,167	611
1992	3.61	N/A	119,942	(722)
1993	3.15	N/A	126,392	2,258
1994	4.48	N/A	148,370	(1,189)
3-Month Debt Issues				
1990	7.91	19	14,725	215
1991	5.64	12	13,435	50
1992	3.61	7	16,150	900
1993	3.13	4	15,195	(500)
1994	4.37	11	14,890	255
6-Month Debt Issues				
1990	7.97	13	13,220	(41)
1991	5.74	7	9,180	(2,055)
1992	3.73	4	8,749	595
1993	3.25	2	8,100	(835)
1994	4.71	7	7,830	(185)
Medium-Term Note Issues				
1990	8.59	23[2]	2,327	871
1991	7.25	19[2]	2,452	1,401
1992	5.69	16[2]	5,536	3,954
1993	5.07	19[2]	6,903	4,277
1994	6.11	20[2]	5,205	1,648
All Term Debt Issues				
1990	8.14	6	8,344	(5,102)
1991	6.47	13	8,898	(2,461)
1992	4.56	10	7,068	(3,830)
1993	3.66	5	6,670	(2,157)
1994	5.10	9	8,519	208
All Debt Issues				
1990	8.00	16	138,322	(1,121)
1991	5.81	13	169,451	(1,427)
1992	3.70	8	161,301	(35)
1993	3.18	5	164,933	451
1994	4.54	11	185,835	400

1. Annual figures are averages.
2. Does not include floating rate notes.

Note: N/A = Not applicable.
Source: Farm Credit System Annual Information Statement-1994 and Federal Farm Credit Banks Funding Corporation Statistical Summary of Financing Activities, 1994.

Young, Beginning, and Small Farmers

The Farm Credit Administration (FCA) is required to report annually to Congress on special programs developed by the Farm Credit System (FCS) to serve young, beginning, and small (YBS) farmers, pursuant to Section 4.19 of the Farm Credit Act of 1971, as amended (by the Farm Credit Act Amendments of 1980). Since 1982, FCA has provided such a report, containing summary statistics as well as an overview of the programs offered. This 1994 report includes highlights for 1994 and a summary comparison for the period 1988–1994. Data for earlier years are not directly comparable, because the definition of a small farm was made more restrictive in 1988.[1] Data are provided on all FCS loans[2] and then for four different definitions of young, beginning, and small farmer loans. Some comparisons are made with the 1992 Agricultural Census, which provides approximate benchmarks.

Definition of Young, Beginning, and Small Farmers

Information is reported for five different classifications of loans:

1. All FCS loans for farming purposes, which provides a base for comparison;
2. Loans to young farmers, in which the primary borrower is age 35 or under;
3. Loans to beginning farmers, who have 5 years or less of farming experience;
4. Loans to small farmers, who have annual sales under $40,000 and assets under $100,000; and
5. Loans to young, beginning, and small farmers, defined as those satisfying two or more of the three criteria in (2), (3), and (4). (This classification is the most restrictive.)

Each of the last four classifications is used as an alternative definition for YBS farmers. The numbers may not be added, because a given borrower may appear in one, two, three, or all four categories.

1994 FCS Lending to YBS Farmers

The Farm Credit Banks (FCBs) and associations had 590,913 total farm loans outstanding at the end of 1994 for an aggregate amount of $41.5 billion. Within the groups of these loans that met definitions in categories 2 through 5, the largest loan amount was in the young farmer category—$1.6 billion in loans. The percentage of total loan dollar amounts to YBS farmers ranged from 1.83 to 3.85, depending on the definition. The highest percentage of FCS loan numbers was in the small farmer category—45,331 loans. The percentage of loan numbers to YBS farmers ranged up to 7.67, depending on the definition used. Some 2.79 percent of the number and 1.83 percent of the dollar amount were to category 5 borrowers (Table 4). There were 16,506 such loans for an aggregate of $760 million. (These and earlier years' data are found in Table 6 at the end of this section.)

Trends in FCS Lending to YBS Farmers, 1988–1994

Total FCS loan numbers to all farm borrowers have dropped by about 60,000 (9 percent) since 1988, to 603,006,[3] but loan volume is up from $40.8 billion to $41.9 billion. The same general

1. For the entire period, two criteria were used to classify small farms. The sales criterion stayed constant at $40,000 or less in sales. Before 1988, a net worth of $100,000 or less was the second criterion. Since 1988, total assets of $100,000 or less has been used.
2. FCS data are for loans, rather than number of persons who are borrowers, and are summarized for all types of banks and associations that have retail farm mortgage or operating loans.
3. From 1988 through 1994, many Production Credit Associations (PCAs) and Federal Land Bank Associations (FLBAs) merged to become Agricultural Credit Associations (ACAs). This creates a declining trend in data for individual types of associations. It also causes some reduction in overall loan numbers when formerly separate mortgage and operating accounts are combined under a single borrower number. The extent of this reduction is unknown.

pattern holds for each of the categories of young, beginning, and small borrowers. Loan volume is steady to dropping slightly, the number of borrowers served has decreased, and the percentages of all FCS borrowers and of loan volume from the YBS groups has decreased. These trends are shown in Figures 18-21, which trace the number of loans and the dollar volume for each program for the past 7 years.

Table 4

1994 FCS Loan Numbers and Dollar Amounts by Type of Borrower

Borrower Group	Percentage of Number	Percentage of Dollar Amount
1. All Borrowers	100.00	100.00
2. Young Borrowers	4.73	3.85
3. Beginning Borrowers	2.35	3.62
4. Small Borrowers	7.67	2.60
5. Young, Beginning and Small Borrowers	2.79	1.83

Figure 18

Young* Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1994

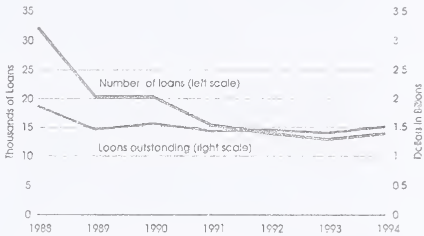
(As of December 31)

*Young means less than 36 years of age.
Source: FCA Risk Analysis Division

Figure 19

Beginning* Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1994

(As of December 31)

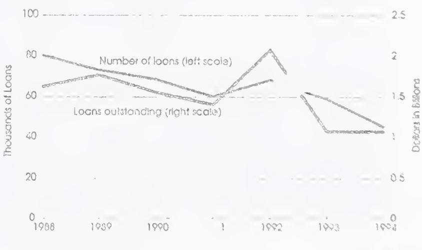


*Beginning means less than 36 years experience.
Source: FCA Risk Analysis Division

Figure 20

Small* Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1994

(As of December 31)

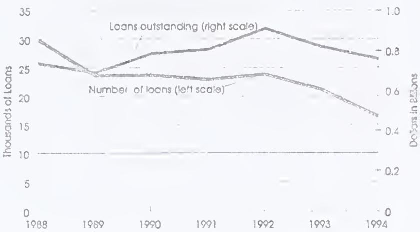


*Small means less than $40,000 in sales and less than $100,000 in assets.
Source: FCA Risk Analysis Division

Figure 21

Young, Beginning, and Small Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1994*

(As of December 31)



*Includes all borrowers meeting at least two of the three standards.
Source: FCA Risk Analysis Division

Declining Trend in Farm Numbers

FCS trends in the number of YBS farmers must be seen in light of the decline in farm numbers and new entries overall. The number of farms in the United States has decreased continuously from the peak number of 6.8 million in 1935. This is normal in the process of economic development and has meant that each retiring generation of farmers is only partially replaced by new entrants and the average age of farmers is relatively high. A significant portion of the assets of retiring operators is consolidated into existing operations and does not represent new farming opportunities. This scenario of fewer entry opportunities for each generation provides the economic environment in which the FCS's YBS lending programs must be considered.

U.S. Department of Agriculture (USDA) estimates, based on the Agricultural Census, indicate that the gross number of new entrants to farming averaged 100,000 per year for 1978–1982 (column 2 of Table 4), when farm income prospects were strong and urban-to-rural migration was high. Rates dropped to 75,000 per year for 1982–1987, in the midst of the agricultural difficulties. And rates dropped again to about 67,000 per year for 1987–1992.

Entries, like exits, occurred among all age groups, but the largest decline was among farmers age 35 and under. This group declined from 42 percent during the 1978–1982 period to 31 percent in the 1987–1992 period.

During the same period, the number of exits fluctuated much less, but always exceeded the number of entries, as reflected in the gradual drop in farm numbers to less than 2 million today. The decrease in numbers varied from a low of 3,000 per year during the favorable income years of 1978–1982 to 30,000 per year during the farm financial crisis of the mid-1980s. The number of exits continued to grow, to 32,000 per year for 1987–1992, even as farm incomes recovered, and USDA projects it to grow further in the 1992–2002 decade.

The declining number of farms combined with a significant amount of farm enlargement means there are fewer farm units available for new entrants each succeeding generation. The large number of older farmers in 1992 means that the exit rate will be increasing in the decade ahead. Some farmers will be replaced by new entrants, but some farms will be consolidated into existing farm units (Table 5).

Table 5
Entries Into and Exits From Farming, by U.S. Agricultural Census Interval, 1978-1992 and Projected

Census Interval	Entries: All Ages	Entries: 35 and Under	Exits	Net Change (annual average)
1978–1982	100,000	42,000	103,000	-3,000
1982–1987	75,000	27,000	105,000	-30,000
1987–1992	67,000	21,000	99,000	-32,000
1992–1997 projected				-38,000
1997–2002 projected				-39,000

Source: *Agricultural Outlook*, U.S. Dept. of Agriculture, Economic Research Service, Jan.–Feb. 1995.

All of these numbers represent farm operations in which the primary operator of the farm fits the YBS definition. The Agricultural Census did not count junior partners in multi-operation farms. Such farms are relatively common, and the result is that Census data do not count all the younger-generation individuals engaged in farming.

District Programs for YBS Borrowers

Each FCB and Agricultural Credit Bank (ACB) is required to have policies and programs that specifically address the needs of YBS borrowers; these policies may affect the entry threshold. Policies generally provide that maximum use will be made of the flexibilities within general lending programs, that cooperation is expected with other lenders, and that Federal and State lending and guarantee programs will be used. The policies also generally require associations to have programs that meet these requirements and may offer bank assistance in carrying out the programs. In each case, required programs must be within sound credit underwriting standards and within the capital resources of the institution if additional risks are assumed.

Association programs vary greatly among institutions, but they have many common elements. The programs that focus directly on lending include pooling higher risk credits with normal risk credits in loan pricing, creating specific programs for targeted groups, providing additional counseling and analysis to control risks on loans that would not otherwise be made, and simplifying loan procedures for small loans to reduce the cost of credit to these borrowers.

Other programs provide targeted marketing to potential borrowers, including support of 4-H, Future Farmers of America, young farmer, and college student groups and activities. Still others offer special education on financial management or training to such groups, advisory groups, and outreach to farm meetings and organizations.

Several Farm Credit districts require annual reporting on the number and extent of these activities, which helps ensure that young, beginning, and small customers are kept as a focus. Numbers of counseling sessions, meetings, and outside activities held annually typically run in the hundreds at districts reporting on targeted YBS marketing activities.

Table 6
Farm Credit System Young, Beginning, and Small Farmer Loans: Number and Dollar Volume for All FCS Institutions, 1988–1994

	Young Farmers*		Beginning Farmers*		Small Farmers*		Young, Beginning, Small*		All Farm Loans	
Year	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)
Totals, All Farm Credit System										
1988	43,579	1,965,226	32,199	1,876,435	80,427	1,623,621	29,821	737,903	65[illegible],27[illegible]	40,625,[illegible]
1989	41,988	2,062,363	20,374	1,459,598	73,231	1,769,099	23,703	690,395	618,[illegible]	39,829,[illegible]
1990	35,790	1,755,960	20,332	1,566,324	68,672	1,559,395	23,796	787,109	598,[illegible]	39,[illegible]
1991	32,778	1,832,000	15,376	1,431,672	60,349	1,406,119	23,012	807,631	611,457	39,368,851
1992	31,735	1,872,308	13,926	1,450,559	68,296	2,076,059	23,940	910,741	609,03[illegible]	40,2[illegible],9[illegible]2
1993	32,640	1,884,482	12,831	1,396,963	59,028	1,080,281	21,250	820,433	609,835	39,[illegible]0,735
1994	27,974	1,598,979	13,860	1,505,462	45,331	1,077,901	16,506	760,179	590,91[illegible]	41,530,887
Percentages										
1988	6.64	4.81	4.91	4.60	12.26	3.98	4.54	1.81	100.00	100.00
1989	6.78	5.18	3.29	3.66	11.83	4.44	3.83	1.73	100.00	100.00
1990	5.98	4.43	3.39	3.95	11.47	3.93	3.97	1.98	100.00	100.00
1991	5.36	4.65	2.51	3.64	9.87	3.57	3.76	2.05	100.00	100.00
1992	5.21	4.65	2.29	3.60	11.21	5.15	3.93	2.26	100.00	100.00
1993	5.35	4.73	2.10	3.50	9.68	2.71	3.48	2.06	100.00	100.00
1994	4.73	3.85	2.35	3.62	7.67	2.60	2.79	1.83	100.00	100.00

* Classifications are based on the following standards. A given individual may qualify in more than one of the categories.
Young farmer–35 years old or younger
Beginning farmer–Less than [illegible] years farming experience
Small farmer–Farming assets less than $100,000 and agricultural sales less than $40,000
Young, beginning and small farmers includes all borrowers meeting two or more of the three standards.

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Use of Derivatives in the Farm Credit System

In February 1994, the Farm Credit Administration (FCA) established a work group to study the use of financial derivatives by the Farm Credit System (FCS). The following summary of the final report updates the data to December 31, 1994.

The FCS is a modest participant in the markets of both off-balance-sheet and on-balance-sheet derivative-type products. The FCS does not engage in active trading of derivatives, where the greatest operational risks arise. Instead, it uses them to maintain or reduce interest-rate risk or lower funding costs.

Four uses for derivative securities were identified, covering both sides of the balance sheet as well as off-balance-sheet derivative contracts.

Most Farm Credit Banks (FCBs) use only interest rate swaps, an off-balance-sheet contract; in fact, swaps constitute 98 percent of derivatives use. Swaps are used to lower funding costs or to manage interest-rate risk in the institution. Total outstanding notional amount[1] averaged more than $10 billion in 1994 and stood at $12.4 billion at December 31, 1994. Credit exposure dropped from $147 million at the beginning of the year to less than $60 million by year-end. However, this exposure is concentrated in a relatively few counterparties, creating some concentration risk.

At least four FCS banks had mortgage-backed securities, structured notes, or other securities with derivative-like features as part of their investment portfolios in 1994. These investments experienced particular problems because of their sensitivity to interest rate changes and to the type of accounting procedures used to record changes in value.

In 1994, all FCBs accounted for their investments on an available-for-sale basis, according to the Statement of Financial Accounting Standards (SFAS) 115.[2] This means they made a quarterly mark-to-market adjustment directly to their equity capital for any change in the value of their investments. A gain or loss is not recognized until the security is sold.

All fixed-rate investments, but particularly derivative-like investments and longer-maturity mortgage-backed securities, lost market value during 1994 after gaining in 1993. Some banks liquidated these securities, for a loss of $24.3 million for 1994. In addition, there was a loss of interest income as a result of pricing features of some of the derivative investments called "range floaters."

However, investment holdings of derivative instruments were not large enough to have a major impact on any FCS institution. In fact, at year-end 1994, total investment holdings were just $8.3 billion, or 12.5 percent of total assets, and unrealized losses of $107.6 million were 1.2 percent of total capital. The investment holdings in derivative securities were a portion of these total investments and were significant contributors to these paper losses because their prices were more sensitive to rises in interest rates.

On the funding side of the balance sheet, some of the FCS security issues were converted to structured notes as a part of its funding programs. Generally, such issues are created at the request of dealers for investors who have a specific need, and any fiduciary risks are those of the dealers.

1. Notional amount is the base used to calculate the amount of interest payment to be exchanged under an interest rate swap agreement. Actual credit risk exposure is less, since it is based on the amount of interest payment due to the FCS institution from the counterparty in the event the counterparty should not pay as agreed. The amount of credit risk may be the gross payment due from the counterparty at current interest rates, but it is usually reduced by netting arrangements to the difference between the interest payment each owes the other.
2. Three FCS banks were using the held-to-maturity accounting option in 1993, none in 1994, and at least one in 1995. Under this option, adjustments to asset values are made only if an asset is liquidated. No paper losses are recorded.

One bank offers derivative services for its customers who want risk management services. This program created a potential fiduciary risk regarding whether customer counseling is adequate on the suitability or appropriateness of specific investments. This is a very small program and FCA imposed conditions before approving it. However, future changes are likely in both the demand for such services from FCS customers and the kinds of derivative products available for laying off risk.

Overall, risks from financial derivative activities are at an acceptable level in the Farm Credit System. Farm Credit banks are currently using them in prudent ways, and amounts outstanding do not present unreasonable risks.

Financial Assistance to the Farm Credit System

The Farm Credit System (FCS) achieved a milestone during 1994 when the last of the four open Farm Credit Banks (FCBs) to receive direct financial assistance, which was made available through the Agricultural Credit Act of 1987 (1987 Act), made provisions for repayment of the assistance ahead of schedule. On March 31, 1994, the Farm Credit Bank of Spokane[1] purchased a zero coupon bond that, on maturity, will pay off the assistance the bank received in 1990. In 1992, AgriBank, FCB (created through the merger of the FCBs of St. Paul and St. Louis) and the FCB of Omaha repaid their financial assistance. In late 1993, the FCB of Louisville repaid its assistance before merging with AgriBank, FCB on January 1, 1994.

The events that resulted in the FCS's financial crisis began in the early 1980s, when the nation's agricultural economy entered a depression as severe as anything the industry had faced in more than 50 years. Low commodity prices, high interest rates, expensive production costs, a declining export market, and plummeting farmland values made it impossible for many farm operators to service their debt loads. As a single-sector lender, the FCS was hit particularly hard by the circumstances affecting the agricultural economy. As increasing numbers of farmers and ranchers were forced into bankruptcy or foreclosure, portions of the FCS suffered severe financial deterioration.

Congress first responded to the financial crisis facing the FCS by passing legislation in both 1985 and 1986, but these efforts proved inadequate. Then Congress took a more comprehensive approach when it passed the Agricultural Credit Act of 1987. The 1987 Act created the Farm Credit System Assistance Board (Assistance Board) and the Farm Credit System Financial Assistance Corporation (FAC). The purpose of the Assistance Board was to provide assistance to financially troubled FCS institutions in order to protect borrowers' stock, to restore FCS banks to economic viability, and to preserve their ability to provide credit at reasonable and competitive rates. Because Congress created the Assistance Board to accomplish a specific and limited task, it also limited its life to 5 years by providing for its termination on December 31, 1992.

The FAC was authorized, at the direction of the Assistance Board, to issue up to $4 billion in U.S. Government-guaranteed 15-year bonds to fund financial assistance to FCS institutions and to protect borrower stock. FAC's authority to issue such bonds expired September 30, 1992, at which time outstanding debt securities totaled $1.261 billion. Table 7 outlines how the proceeds were distributed. All issues mature by 2005.

Most of the proceeds of the assistance preferred stock issued by the individual FCBs was used to pay the premiums associated with repurchasing high-cost debt securities. The remainder was used to strengthen the individual banks' capital position.

The 1987 Act also provided for the repayment of the principal and interest on the securities issued by FAC. The four assisted FCBs were obligated to repay the principal on the debt issued to fund their assistance. All FCS banks are required to repay the $417 million for the capital preservation agreement (CPA) accruals and the $37 million for redemption of protected stock and operating expenses. The $388 million for operating expenses and redemption of borrower stock for the Federal Land Bank (FLB) of Jackson will be paid from the FAC Trust Fund; if there is a deficit, the Farm Credit System Insurance Fund will pay it.

1. The FCB of Spokane and the FCB of Omaha consolidated, effective April 1, 1994, to form AgAmerica, FCB. Headquarters for the consolidated Farm Credit District is in Spokane, Washington.

Table 7
Distribution of Proceeds from FCS Financial Assistance Corporation
(Dollars in Millions)

Use of Proceeds	Amount
Purchase preferred stock from financially troubled FCS banks:	
FCB of St. Paul (1988)	$ 133.4
FCB of Omaha (1988)	107.2
FCB of Louisville (1988)	90.0
FCB of Spokane (1990)	88.6
Preferred stock in FLB of Jackson in Receivership	388.2
Fund FCS banks' third-quarter 1987 Capital Preservation Agreement accruals	417.0
Redeem protected borrower stock in liquidating associations in Spokane and Omaha	16.0
Operating expenses of the Assistance Board and FAC	21.0
Total	$1,261.4

Note: FCS = Farm Credit System; FCB = Farm Credit Bank; FLB = Federal Land Bank; FAC = FCS Financial Assistance Corporation.

Interest on all debt except that related to the CPA accruals was paid for the first 5 years by the Department of the Treasury. During the second 5 years, Treasury and the FCS share payment. In the final 5 years, the FCS will bear sole responsibility for interest payments. However, once all the debt securities have matured, the FCS must reimburse Treasury for all interest paid.

The Farm Credit Banks and Associations Safety and Soundness Act of 1992 made further provisions to facilitate the repayment of the debt and interest. Beginning in 1992, the FCS was required to make annual payments to prefund its obligations to reimburse the U.S. Treasury for interest paid and to pay the debt associated with the CPA accruals. In 1994, these payments to FAC, including current interest payments on FAC debt securities, totaled $116.4 million, or 0.2 percent of average earning assets.

Farm Credit System Financial Tables

The financial tables that follow were developed by FCA from Call Report data submitted by each Farm Credit System (FCS) institution. The Call Report information submitted is routinely reviewed for accuracy. Although FCA believes the Call Report data are reliable, the financial data submitted by each FCS institution and contained in the Call Reports have not been audited by FCA, nor does FCA express an opinion on their content.

In addition, because of the significant intercorporate relationships that exist between and among FCS institutions, it is not possible to add financial data for each group of like entities presented in this report and obtain data for the combined FCS. Such Systemwide data would require significant intercorporate eliminations and combinations of financial data of FCS service organizations that are not included as a part of this report. The reader is referred to the 1994 Report to Investors of the Farm Credit System issued by the Federal Farm Credit Banks Funding Corporation for condensed combined financial statements for FCS.

Financial Table 7
Farm Credit Banks Combined Statement of Financial Condition
(Dollars in Millions)

As of December 31	1994	1993[1]	1992	1991	1990
Assets					
Loans	$37,789.6	$37,728.0	$38,290.9	$38,626.4	$39,824.3
Allowance for Losses	623.2	722.0	722.8	746.0	902.1
Net Loans	37,166.5	37,006.1	37,568.1	37,880.3	38,922.2
Cash and Investments in Securities	7,269.1	6,167.1	6,683.7	6,388.9	7,318.6
Other Property Owned	52.4	131.0	247.3	316.5	281.4
Other Assets–Net	455.8	523.1	553.9	680.6	709.2
Total Assets	44,943.8	43,827.2	45,053.1	45,266.4	47,231.3
Liabilities					
Consolidated Systemwide and Other Bonds	28,573.3	27,488.9	30,496.9	30,768.3	32,872.7
Consolidated Systemwide Notes	11,088.2	11,193.0	9,469.2	9,220.2	8,197.3
Other Liabilities	1,223.0	1,107.8	1,215.6	1,399.8	1,958.1
Total Liabilities	40,884.5	39,789.8	41,181.7	41,388.2	43,028.1
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	0.5	0.6	1.3	3.9	5.6
Capital Stock and Participation Certificates–Unprotected	1,363.3	1,515.2	1,594.8	1,858.5	2,687.3
Preferred Stock–Financial Assistance Corporation	388.2	476.7	566.7	807.3	807.3
Other Capital	227.4	113.0	104.1	(115.0)	(346.2)
Total Capital	1,979.3	2,105.5	2,266.9	2,554.6	3,153.9
Earned Net Worth	2,080.0	1,931.9	1,604.5	1,323.6	1,049.3
Total Net Worth	4,059.3	4,037.5	3,871.4	3,878.2	4,203.3
Total Liabilities and Net Worth	$44,943.8	$43,827.2	$45,053.1	$45,266.4	$47,231.3

Note: Totals may not add because of rounding.

1. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 2

Farm Credit Banks Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31	1994	1993[1]	1992	1991	1990
Interest Income					
Loans	$2,423.2	$2,458.2	$2,814.1	$3,406.1	$3,823.1
Investments and Other	287.9	216.5	246.8	405.9	610.6
Total Interest Income	2,711.0	2,674.6	3,060.9	3,812.0	4,433.7
Interest Expense					
Consolidated Bonds	1,476.2	1,422.4	1,869.7	2,445.3	3,109.3
Notes and Other	455.6	331.4	365.8	564.4	608.9
Total Interest Expense	1,931.8	1,753.7	2,235.5	3,009.8	3,718.3
Net Interest Income (Loss)	779.2	920.9	825.4	802.2	715.5
Less: Provision for Loan Losses	6.5	3.9	(9.2)	(127.3)	(58.4)
Net Interest Income (Loss) after Provision for Loan Losses	772.7	917.0	834.6	929.6	773.8
Other Income	42.1	80.9	78.8	69.1	46.7
Operating Expenses					
Salaries and Employee Benefits	103.6	125.6	131.9	122.6	123.1
Occupancy & Equipment Expenses	25.5	31.9	32.7	35.2	37.2
Other Operating Expenses	264.7	290.9	298.7	389.8	283.8
Total Operating Expenses	393.8	448.4	463.3	547.6	444.1
Other Expenses	102.0	107.2	102.1	72.4	101.3
Extraordinary Items	(3.5)	(22.5)	(2.9)	0.0	(10.9)
Net Income (Loss)	$315.4	$419.8	$345.1	$378.7	$264.3

Note: Totals may not add because of rounding.

1. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 3

Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31	1994	1993[1]	1992	1991	1990
Loan Performance					
Performing[2]	$36,842.9	$36,346.1	$36,322.0	$35,888.3	$36,083.4
Formally Restructured[2]	397.4	480.2	685.9	1,028.4	1,689.4
Nonaccrual	519.8	891.6	1,275.5	1,700.2	2,014.3
Loans Past Due 90 Days or More	29.5	10.1	19.2	26.2	53.8
Net Chargeoffs on Loans	$2.3	$2.3	$16.6	$25.0	$12.1
Selected Ratios					
Return on Assets, %	0.72	0.96	0.77	0.83	0.56
Return on Equity, %	7.78	10.46	8.81	9.66	6.71
Net Interest Margin, %	1.82	2.21	1.96	1.88	1.63
Capital as a Percentage of Assets	9.03	9.21	8.59	8.57	8.90
Debt-to-Capital Ratio	10.07	9.86	10.64	10.67	10.24

1. Some of the previously published annual data have been restated to include subsequent adjustments.
2. Excluding loans past due 90 days or more.

Financial Table 4
Banks for Cooperatives Combined Statement of Financial Condition
(Dollars in Millions)

As of December 31	1994	1993	1992	1991	1990
Assets					
Loans	$13,774.3	$13,484.6	$12,029.1	$11,621.5	$11,301.9
Allowance for Losses	177.8	163.9	157.4	147.5	151.2
Net Loans	13,596.5	13,320.8	11,871.8	11,474.0	11,150.7
Cash and Investments in Securities	2,441.2	3,094.3	2,557.9	2,832.1	3,114.7
Other Property Owned	0.4	0.5	1.1	1.2	1.6
Other Assets–Net	192.0	139.3	148.7	177.0	192.5
Total Assets	16,230.1	16,554.9	14,579.5	14,484.3	14,459.6
Liabilities					
Consolidated Systemwide and Other Bonds	9,395.2	8,626.7	7,317.8	6,270.4	6,413.4
Consolidated Systemwide Notes	5,343.1	6,502.0	5,986.3	7,029.1	6,903.7
Other Liabilities	296.8	232.6	209.7	200.0	209.1
Total Liabilities	15,035.1	15,361.2	13,513.9	13,499.5	13,526.2
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	2.2	6.5	112.5	279.2	404.3
Capital Stock and Participation Certificates–Unprotected	843.4	811.8	672.6	496.3	356.8
Preferred Stock–Financial Assistance Corporation	0.0	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	845.6	818.3	785.2	775.5	761.1
Earned Net Worth	349.4	375.4	280.4	209.3	172.2
Total Net Worth	1,195.0	1,193.7	1,065.6	984.8	933.3
Total Liabilities and Net Worth	$16,230.1	$16,554.9	$14,579.5	$14,484.3	$14,459.6

Note: Totals may not add because of rounding.

Financial Table 5
Banks for Cooperatives Combined Statement of Income and Expense
(Dollars in Millions)

For the Year Ended December 31	1994	1993	1992	1991	1990[1]
Interest Income					
Loans	$860.4	$709.4	$745.0	$875.5	$1,021.5
Investments and Other	117.1	120.1	166.1	198.8	240.4
Total Interest Income	977.4	829.5	911.1	1,074.2	1,261.9
Interest Expense					
Consolidated Bonds	418.4	329.9	328.5	409.5	475.5
Notes and Other	253.5	189.8	261.8	407.1	592.7
Total Interest Expense	671.9	519.7	590.2	816.6	1,068.2
Net Interest Income (Loss)	305.5	309.8	320.9	257.6	193.7
Less: Provision for Loan Losses	10.9	11.0	24.5	24.4	27.9
Net Interest Income (Loss) after Provision for Loan Losses	294.6	298.8	296.3	233.3	165.8
Other Income	16.4	13.6	32.9	8.7	8.6
Operating Expenses					
Salaries & Employee Benefits	43.3	43.5	40.1	35.0	31.3
Occupancy & Equipment Expenses	7.3	6.9	7.7	7.8	7.4
Other Operating Expenses	46.3	39.1	22.4	22.1	24.3
Total Operating Expenses	96.9	89.5	70.3	64.9	63.0
Other Expenses	78.6	62.5	87.5	57.7	39.7
Extraordinary Items	9.8	9.8	(10.7)	0.6	0.0
Net Income (Loss)	$136.3	$170.2	$160.7	$119.9	$71.8

Note: Totals may not add because of rounding.

1. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 6

Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31	1994	1993	1992	1991	1990
Loan Performance					
Performing[1]	$13,764.1	$13,458.5	$11,970.3	$11,495.6	$11,103.1
Formally Restructured[1]	0.0	10.3	10.1	11.8	92.6
Nonaccrual	5.0	15.1	48.1	113.5	100.5
Loans Past Due 90 Days or More	5.3	0.7	0.6	1.6	7.3
Net Chargeoffs on Loans	($3.1)	$4.5	$14.6	$28.1	$5.0
Selected Ratios					
Return on Assets, %	0.83	1.10	1.09	0.86	0.51
Return on Equity, %	10.33	13.69	14.22	11.16	6.74
Net Interest Margin, %	1.91	2.05	2.23	1.92	1.41
Capital as a Percentage of Assets	7.36	7.21	7.31	6.80	6.45
Debt-to-Capital Ratio	12.58	12.87	12.68	13.71	14.49

1. Excluding loans past due 90 days or more.

Financial Table 7

Direct Lender Associations Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1994	1993[2]	1992	1991	1990
Assets					
Loans	$29,365.7	$26,416.2	$25,045.9	$23,816.2	$17,692.9
Allowance for Losses	747.7	601.1	566.0	551.4	388.1
Net Loans	28,617.9	25,815.2	24,479.9	23,264.8	17,304.8
Cash and Investments in Securities	115.8	47.2	71.1	82.9	72.1
Other Property Owned	47.8	56.7	70.6	94.3	63.6
Other Assets–Net	2,289.2	2,237.8	1,957.9	2,085.8	1,867.7
Total Assets	**31,070.7**	**28,156.8**	**26,579.5**	**25,527.9**	**19,308.2**
Liabilities					
Consolidated Systemwide and Other Bonds	N/A	N/A	N/A	N/A	N/A
Consolidated Systemwide Notes	N/A	N/A	N/A	N/A	N/A
Other Liabilities	25,711.1	23,136.9	22,279.2	21,705.3	16,459.2
Total Liabilities	**25,711.1**	**23,136.9**	**22,279.2**	**21,705.3**	**16,459.2**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	204.3	214.0	146.2	193.6	125.4
Capital Stock and Participation Certificates–Unprotected	1,252.0	1,262.8	1,231.2	1,169.2	763.7
Preferred Stock–Financial Assistance Corporation	0.0	0.0	0.0	0.0	0.0
Other Capital	4.1	100.5	108.8	108.6	123.0
Total Capital	**1,460.5**	**1,577.3**	**1,486.3**	**1,471.4**	**1,012.0**
Earned Net Worth	3,899.1	3,442.6	2,814.0	2,351.2	1,837.0
Total Net Worth	**5,359.6**	**5,019.9**	**4,300.3**	**3,822.6**	**2,849.0**
Total Liabilities and Net Worth	**$31,070.7**	**$28,156.8**	**$26,579.5**	**$25,527.9**	**$19,308.2**

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 8

Direct Lender Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1994	1993[2]	1992	1991	1990
Interest Income					
Loans	$2,258.9	$1,997.2	$2,098.0	$2,110.5	$1,743.1
Investments and Other	0.9	2.0	4.4	8.2	9.9
Total Interest Income	2,259.7	1,999.2	2,102.4	2,118.6	1,753.0
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	1,301.2	1,146.2	1,331.2	1,496.6	1,326.6
Total Interest Expense	1,301.2	1,146.2	1,331.2	1,496.6	1,326.6
Net Interest Income (Loss)	958.6	853.0	771.3	622.0	426.4
Less: Provision for Loan Losses	45.4	32.6	40.9	49.7	10.8
Net Interest Income (Loss) after Provision for Loan Losses	913.1	820.4	730.3	572.3	415.6
Other Income	326.4	272.9	303.9	231.2	101.4
Operating Expenses					
Salaries & Employee Benefits	348.0	316.8	290.3	260.6	194.1
Occupancy & Equipment Expenses	42.7	38.7	35.0	32.2	25.7
Other Operating Expenses	193.3	165.4	153.1	144.6	103.4
Total Operating Expenses	584.0	521.0	478.4	437.5	323.1
Other Expenses	133.1	130.9	131.9	98.0	72.4
Extraordinary Items	0.0	80.6	8.0	6[illegible]	5.5
Net Income (Loss)	$522.5	$522.0	$431.8	$274.3	$127.0

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 8

Direct Lender Associations Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1994	1993[2]	1992	1991	1990
Loan Performance					
Performing[3]	$28,702.7	$25,706.1	$24,117.6	$22,704.6	$16,632.4
Formally Restructured[3]	131.0	137.1	228.3	356.0	412.9
Nonaccrual	513.5	556.5	659.9	683.4	577.4
Loans Past Due 90 Days or More	18.5	16.6	40.1	72.2	70.4
Net Chargeoffs on Loans	$4.0	($0.4)	$7.3	$19.8	$9.3
Selected Ratios					
Return on Assets, %	1.74	1.92	1.65	1.19	0.70
Return on Equity, %	9.97	11.14	10.52	7.66	4.53
Net Interest Margin, %	3.52	3.48	3.26	3.04	2.76
Capital as a Percentage of Assets	17.25	17.83	16.18	14.97	14.76
Debt-to-Capital Ratio	4.80	4.61	5.18	5.68	5.78

1. Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.
3. Excluding loans past due 90 days or more.

Financial Table 10

Federal Land Bank Associations Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1994	1993	1992	1991	1990
Assets					
Loans[2]	N/A	N/A	N/A	N/A	N/A
Allowance for Losses[3]	N/A	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$318.0	$263.9	$275.2	$224.7	$ 241.9
Other Property Owned	0.0	0.0	0.0	0.0	0.3
Other Assets–Net	219.3	268.5	473.4	480.2	1,339.7
Total Assets	537.3	532.4	748.5	705.0	1,581.9
Liabilities					
Consolidated Systemwide and Other Bonds	N/A	N/A	N/A	N/A	N/A
Consolidated Systemwide Notes	N/A	N/A	N/A	N/A	N/A
Other Liabilities	35.5	46.0	55.0	72.1	103.9
Total Liabilities	35.5	46.0	55.0	72.1	103.9
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	11.6	17.7	140.1	189.9	712.7
Capital Stock and Participation Certificates–Unprotected	188.9	200.0	216.5	229.5	305.0
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	200.5	217.8	356.6	419.4	1,017.6
Earned Net Worth	301.4	268.7	337.0	213.4	460.4
Total Net Worth	501.9	486.4	693.5	632.8	1,478.0
Total Liabilities and Net Worth	$537.3	$532.4	$748.5	$705.0	$1,581.9

Note: Totals may not add because of rounding. N/A = Not applicable.

1. 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks (FCBs).
2. The FLBAs act as agents for the FCBs (formerly Federal Lands Banks) in the lending process but do not hold loans themselves.
3. FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.

Financial Table 11

Federal Land Bank Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1994	1993	1992	1991	1990
Interest Income					
Loans	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Investments and Other	15.7	2.4	1.7	2.9	2.4
Total Interest Income	15.7	2.4	1.7	2.9	2.4
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	N/A	N/A	N/A	N/A	N/A
Total Interest Expense	N/A	N/A	N/A	N/A	N/A
Net Interest Income (Loss)	15.7	2.4	1.7	2.9	2.4
Less: Provision for Loan Losses	(2.7)	(1.4)	2.1	5.3	5.8
Net Interest Income (Loss) after Provision for Loan Losses	18.4	3.8	(0.4)	(2.5)	(3.4)
Other Income	79.4	168.5	208.0	125.1	234.5
Operating Expenses					
Salaries & Employee Benefits	35.2	45.0	47.0	60.6	108.9
Occupancy & Equipment Expenses	4.9	5.9	6.3	8.0	15.2
Other Operating Expenses	15.9	22.0	24.4	31.1	46.0
Total Operating Expenses	56.0	73.0	77.7	99.6	170.0
Other Expenses	0.1	0.1	0.0	5.2	6.0
Extraordinary Items	0.0	(0.4)	(0.6)	0.0	0.0
Net Income (Loss)	$41.8	$98.8	$129.2	$17.8	$55.0

Note: Totals may not add because of rounding. N/A = Not applicable.

1. 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.

Financial Table 12

Federal Land Bank Associations Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1994	1993	1992	1991	1990
Loan Performance					
Performing	N/A	N/A	N/A	N/A	N/A
Formally Restructured	N/A	N/A	N/A	N/A	N/A
Nonaccrual	N/A	N/A	N/A	N/A	N/A
Loans Past Due 90 Days or More	N/A	N/A	N/A	N/A	N/A
Net Chargeoffs on Loans[2]	$0.0	$1.1	$5.8	$4.1	$6.7
Selected Ratios					
Return on Assets, %	8.01	14.21	19.22	1.95	3.39
Return on Equity, %	8.64	15.25	21.14	2.17	3.61
Net Interest Margin, %	N/A	N/A	N/A	N/A	N/A
Capital as a Percentage of Assets	93.40	91.37	92.65	89.77	93.43
Debt-to-Capital Ratio	0.07	0.09	0.08	0.11	0.07

Note: N/A = Not applicable.

1. 1994, 1993, 1992, 1991, and 1990 figures are not comparable to previous years because of mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks (FCBs).
2. FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA other liabilities.

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Farm Credit Administration Annual Financial Report

September 30, 1994

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

March 31, 1995

The Honorable Marsha P. Martin
Chairman of the Board
and Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Ms. Martin:

This report presents the opinion on the Farm Credit Administration's (FCA) Principal Statements for the fiscal year ended September 30, 1994. Reports on the FCA's internal control structure and on its compliance with applicable laws and regulations are also provided.

The Office of Inspector General (OIG) contracted with Urbach Kahn & Werlin, PC (UK&W), Certified Public Accountants, to perform the audit. To fulfill our audit responsibilities under Government Auditing Standards and FCA PPM 100 for ensuring the quality of audit work performed, we monitored the progress of the audit, reviewed supporting workpapers and performed other procedures deemed necessary to ensure compliance with Government Auditing Standards.

It is the opinion of UK&W that the FCA's Principal Statements present fairly, in all material respects, the financial position of the FCA as of September 30 1994, and the results of its operations and changes in net position and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The UK&W report on the internal control structure disclosed no material weaknesses in internal controls; however, it did disclose conditions existing during fiscal year 1994 which UK&W considered to be reportable. Specifically, UK&W reported that the controls within property management and travel policy need improvement.

The UK&W report on compliance with laws and regulations disclosed nothing to indicate that the FCA had not complied with applicable laws and regulations which could have a material effect on the financial statements.

The 1994 financial statement audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. The Principal Statements were prepared in accordance with generally accepted accounting principles.

The FCA's management is responsible for preparing the Annual Financial Statement in conformity with applicable standards, establishing and maintaining internal controls and systems, and complying with applicable laws and regulations.

During the course of its audit, UK&W identified other matters which are not reportable but nevertheless warrant management's attention. These are being communicated in a separate letter for management's consideration.

If you have any questions or would like further information, please contact me or Pat Wensel on extension 4030.

Sincerely,

Eldon Stoehr

Eldon W. Stoehr
Inspector General

cc: Doyle Cook
Gary Byrne
Dorothy Nichols
Floyd Fithian

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the accompanying statement of financial position of the Farm Credit Administration (FCA) as of September 30, 1994, and the related statements of operations and changes in net position, and cash flows for the year then ended. These financial statements are the responsibility of FCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCA as of September 30, 1994, and the results of its operations and changes in net position, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

URBACH KAHN & WERLIN PC

Washington, DC
December 23, 1994

Urbach Kahn & Werlin PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 1994, and have issued our report thereon dated December 23, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of FCA for the year ended September 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of FCA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Treasury/cash,
- Revenues (assessments), receivables and collections,
- Expenditures (payroll and travel), liabilities and disbursements,
- Budgeting, and
- Financial reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

GOVERNMENT AUDIT AND CONSULTING GROUP
1400 Eye Street NW, Washington, DC 20005 (202) 296-2020 FAX (202) 223-8889
Worldwide Coverage through Urbach Hacker Young International

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL STRUCTURE, CONTINUED

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters, which come to our attention, relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect FCA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions we noted are as follows:

> Property management: There was inadequate segregation of duties for receiving and recording FCA property. Certain property items were not properly accounted for. FCA did not have a policy or procedure to account for the disposition and transfer of property items. Finally, FCA did not perform a periodic property inventory.
>
> Travel policy: FCA did not obligate travel prior to the expenses being incurred and did not require all employees to use a standard authorization form. Further, relocation expenses were paid prior to being entered into FCA's financial management system.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, none of the reportable conditions described above is believed to be a material weakness.

Other matters involving the internal control structure and its operations, have also been reported to FCA's management.

This report is intended for the information of the Board and Office of Inspector General and management of FCA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Urbach Kahn & Werlin PC

Washington, DC
December 23, 1994

UK &W Urbach Kahn & Werlin PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 1994, and have issued our report thereon dated December 23, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to FCA is the responsibility of FCA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of FCA's compliance with certain provisions of applicable laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that with respect to the items tested, FCA complied in all material respects with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that FCA had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board and Office of Inspector General and management of FCA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

URBACH KAHN & WERLIN PC

Washington, DC
December 23, 1994

FARM CREDIT ADMINISTRATION

STATEMENT OF FINANCIAL POSITION
September 30, 1994

ASSETS	
Cash and cash equivalents (Note 3)	$14,002,144
Accounts receivable (Note 4)	257,961
Prepaid expenses	30,620
Health insurance fund (Note 5)	998,666
Life insurance fund (Note 5)	102,254
Net property and equipment (Note 6)	304,976
TOTAL ASSETS	$15,696,621
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable (Note 7)	$ 819,938
Accrued payroll and benefits	1,182,866
Accrued annual leave	2,121,459
Other accrued expenses	11,816
Due to System institutions (Note 8)	5,014,081
Prepaid assessments (Note 9)	4,479,070
TOTAL LIABILITIES	13,629,230
Commitment and contingencies (Note 12)	
Net position (Note 10)	2,067,391
TOTAL LIABILITIES AND NET POSITION	$15,696,621

The accompanying notes are an integral part of these financial statements.

FARM CREDIT ADMINISTRATION

STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
For the year ended September 30, 1994

REVENUES	
Assessments and reimbursable revenue	$36,966,100
Interest	507,124
Other	36,199
Total revenue	37,509,423
EXPENSES	
Salaries	25,870,454
Benefits	6,488,092
Travel	2,036,011
Other operating expenses	2,611,030
Depreciation expense	260,559
Total expenses	37,266,146
Excess of revenues over expenses	243,277
Net position, beginning of year	1,824,114
Net position, end of year	$ 2,067,391

The accompanying notes are an integral part of these financial statements.

FARM CREDIT ADMINISTRATION

STATEMENT OF CASH FLOWS
For the year ended September 30, 1994

CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH PROVIDED:	
Farm Credit Banks' and associations' assessments	$37,110,411
Other assessments and reimbursables	823,542
Interest on investments	507,124
Other revenues	36,199
Total cash provided by operating activities	38,477,276
CASH USED:	
Salaries and benefits	(32,181,850)
Travel	(2,029,033)
Cash paid to vendors	(2,381,215)
Total cash used by operating activities	(36,592,098)
Net cash provided by operating activities	1,885,178
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of equipment	(117,092)
Net cash used in investing activities	(117,092)
Net increase in cash and cash equivalents	1,768,086
Cash and cash equivalents, beginning of year	12,234,058
Cash and cash equivalents, end of year	$14,002,144
CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of revenues over expenses	$243,277
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation	260,559
Changes in:	
Accounts receivable	(42,779)
Prepaid expenses	8,124
Health insurance fund	26,397
Life insurance fund	(1,615)
Accounts payable	319,208
Accrued payroll and benefits	50,078
Accrued annual leave	61,837
Net investment in health insurance rate stabilization fund	(50,540)
Due to System institutions	1,010,632
Net cash provided by operating activities	$1,885,178

The accompanying notes are an integral part of these statements.

NOTE 1. ORGANIZATION AND MISSION

The Farm Credit Administration (FCA) is an independent Agency in the Executive Branch of the United States Government. FCA is responsible for the regulation and examination of the banks, associations, and related entities that collectively comprise the Farm Credit System (System). Specifically, FCA is empowered to ensure safe and sound operations of all system institutions. Initially created by an Executive Order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Management of FCA is vested in a full-time, three person-board whose members are appointed by the President with the advice and consent of the Senate.

The System is a nationwide network of borrower-owned lending institutions and specialized service organizations. System institutions consist of Farm Credit Banks, related associations, and Banks for Cooperatives. The institutions within the System provide credit and credit-related services to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm related business, agricultural and aquatic cooperatives, rural utilities and to certain foreign or domestic entities in connection with international activities.

FCA operates under authorities conferred by the Act. The operations of FCA are financed by means of a revolving fund. This fund is reimbursed primarily from assessments received from System institutions examined by FCA. Institutions are assessed or otherwise charged directly and billed in accordance with a formula established by FCA regulations for services performed by FCA. All of FCA's administrative expenses are paid by the institutions it examines, regulates, or for which it provides reimbursable services. In accordance with FCA regulations, adjustments overpayment or underpayment of assessments shall be based on FCA's administrative operating expenses incurred in the applicable fiscal year, plus any funds required to maintain reserves pursuant to the Act. Such credits or charges shall be applied to subsequent assessments. Historically, the amount credited has been based on the amount received by FCA, either from direct assessments, reimbursable activity, or other sources, compared to that obligated by FCA for operating expenses. In recent times, there has never been an adjustment that resulted in additional charges to the institutions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. FCA's transactions are recorded on the accrual basis of accounting. Under this method, revenues are recognized when earned to the extent that they will not be refunded to System institutions and expenses are recognized when liabilities are incurred, without regard to payment of cash.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Chief Financial Officers Act of 1990 (CFO Act) mandated certain Federal agencies to develop financial statements that provide information useful to Congress, government officials, and the public. OMB Bulletin 94-01 *Form and Content of Agency Financial Statements* prescribes a framework for Federal agencies to develop financial statements. FCA is not mandated to adhere to the CFO Act. FCA management has elected to develop financial statements that contain relevant information and have those statements audited. FCA management further believes presentation under generally accepted accounting principles more fully discloses its financial position, results of operations and changes in net position, and cash flows. In this regard, a Statement of Budgetary Resources and Actual Expense is not included as one of FCA's principal statements. The relevant information, however, is provided in the notes to financial statements.

Cash and cash equivalents - Cash and cash equivalents consist of cash and short-term, highly liquid investments with the U.S. Treasury for the purpose of managing excess funds. The market value of the short-term investments is equivalent to cost and, accordingly, such investments are categorized as cash equivalents on FCA's statement of financial position.

Property and equipment - As more fully disclosed under Note 6, property and equipment, including computer software, are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. The straight-line method of depreciation is utilized to allocate the cost of property and equipment that generally cost $5,000 or more, over their estimated useful lives which approximate three years.

In accordance with the Act, FCA occupies buildings and uses land owned and leased by the Farm Credit System Building Association (Association), an entity owned by the banks in the System. While the Association is privately owned, oversight of its activities is vested with the FCA Board. FCA is not charged for the use of the buildings or land owned or leased, and the Association is responsible for maintenance and repair of buildings and for building land improvements.

Post retirement benefits - Employees of FCA will become eligible for healthcare and life insurance benefits when they retire. Those benefits will be provided to almost all of FCA's employees through a Federal retirement program. Accordingly, no liability has been accrued for most employees.

Certain employees and retirees of FCA are participating in an FCA health plan. Statement of Financial Accounting Standard No. 106, Employers' Accounting for Post Retirement Benefits Other Than Pensions (SFAS 106), requires the accrual of the expected cost of providing benefits for those employees and retirees participating in the plan. The provisions of SFAS 106 must be adopted by FCA for fiscal years beginning after December 15, 1994. Early adoption is allowed; however, FCA has elected not to early adopt. Had FCA elected early adoption of SFAS 106 for the fiscal year ended September 30, 1994, the transition liability would have been approximately $6,364,000. FCA has not made a determination whether to amortize or expense the transition obligation upon implementation of SFAS 106 in 1995.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

FCA has initiated efforts to terminate its health plan and bring the participants into the Federal Employees Health Benefit Program (FEHBP). Congressional legislation is required to allow the participants to reenter the FEHBP and FCA would be required to reimburse the FEHBP for the settlement liability. Based upon preliminary estimates received from the U.S. Office of Personnel Management, the settlement liability is anticipated to be significantly less then the $6,364,000 SFAS 106 transition liability.

Annual, sick and other leave - Annual leave is accrued as a liability when earned, with an offsetting reduction for leave taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

Assessments - A substantial portion of FCA's revenues is based upon direct assessments billed to institutions of the System that are examined by FCA. FCA also recognizes revenues based on examination services provided by the Office of Examination. Direct assessments are derived using a formula established in FCA regulations and are based, in part, upon the credit condition of the institution being assessed.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following funds held with the U.S. Treasury at September 30, 1994:

Revolving fund	$ 996,736
Cash equivalents	13,005,408
	$14,002,144

Interest income on cash and cash equivalents approximated $456,000 for the year ended September 30, 1994.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 1994 consisted of the following:

Fiscal year 1994 assessments due from other System entities	$194,473
Intra-government receivables for reimbursable services	47,654
Miscellaneous other receivables	15,834
	$257,961

NOTE 5. *HEALTH AND LIFE INSURANCE FUNDS*

The book value of FCA health and life insurance rate stabilization funds at September 30, 1994 were as follows:

Health insurance fund	$ 998,666
Life insurance fund	102,254
	$1,100,920

Interest earned on these funds approximated $51,000 for the year ended September 30, 1994.

NOTE 6. *PROPERTY AND EQUIPMENT*

Property and equipment consisted of the following at September 30, 1994:

Property and equipment	$ 842,931
Less accumulated depreciation	(537,955)
	$ 304,976

In accordance with the Act, FCA occupies buildings and uses land owned and leased by the Association. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the Association leases office space for FCA regional facilities on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA.

Assuming FCA was charged market rates for the space provided by the Association, the results of operations for fiscal year 1994 would reflect rent expense of approximately $2,833,000, and the amount due to System institutions presented on the statement of financial position would be correspondingly reduced.

NOTE 7. *ACCOUNTS PAYABLE*

Accounts payable consisted of the following at September 30, 1994:

Federal sources	$ 55,816
Non-federal sources	764,122
	$ 819,938

NOTE 8. *DUE TO SYSTEM INSTITUTIONS*

Due to System institutions represents the cumulative excess of all funds received by FCA from direct assessments, reimbursable activities, and other sources over obligations incurred. These amounts, which will generally be refunded prior to the end of the next fiscal year, are non-interest bearing obligations. Included in this amount is approximately $5,429,000 related to fiscal year 1994 activity and approximately $1,515,000 resulting from prior years' activity.

NOTE 9. PREPAID ASSESSMENTS

Prepaid assessments represent prepayments received from assessed institutions as of September 30, 1994. Such amounts will be used to fund fiscal year 1995 activities.

NOTE 10. NET POSITION

Changes in the individual components of net position occurred as follows during fiscal year 1994:

	Unexpended Obligations	Net Capital Invested in Fixed Assets	Total
Beginning Balance September 30, 1993	$1,375,669	$448,445	$ 1,824,114
Excess of fiscal year 1994 revenues over expenses	386,746	(143,469)	243,277
Ending Balance September 30, 1994	$1,762,415	$304,976	$ 2,067,391

The balance in net position generally represents the difference between items that: (1) have been obligated for budgetary purposes, and (2) expenses recorded on the accrual basis of accounting. Unexpended obligations represent items that do not meet the criteria to be recorded as a liability, but are appropriately recognized as an obligation of budgetary resources, and in most cases will result in future recognition of expenses. The investment in fixed assets represents items that were fully expended for budgetary purposes but are being depreciated for accrual accounting purposes.

NOTE 11. EMPLOYEE BENEFIT PLANS

Retirement: Substantially all of FCA's employees are covered under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under CSRS (those employees hired prior to January 1, 1984), FCA withholds approximately 7 percent of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have Federal Insurance Contributions Act (FICA) withholdings and, thus, are not fully eligible to receive Social Security benefits.

For employees covered under FERS (generally those employees hired on or after January 1, 1984), in addition to being covered by social security, employees are also covered by a Basic Benefit Plan and a Thrift Savings Plan. Under the thrift plan, an employee may contribute (tax deferred) up to 10 percent of salary to an investment fund. FCA matches this amount up to 5 percent. FCA will contribute 1 percent even if the employee elects not to contribute. Contributions to the Basic Benefit Plan are made only by employees. Employees who are covered by CSRS may also contribute (tax deferred) up to 5 percent of their salary to the thrift plan, but no matching amount is contributed by FCA.

NOTE 11. EMPLOYEE BENEFIT PLANS, CONTINUED

CSRS and FERS are multi-employer plans. Although FCA funds a portion of pension benefits relating to its employees, and provides for the necessary payroll withholdings, it does not maintain or report information with respect to the assets of the plans, nor does it report actuarial data with respect to accumulated plan benefits or the pension liability relative to its employees. The reporting of such amounts is the responsibility of the U.S. Office of Personnel Management.

FCA's contribution to both plans was approximately $2,251,000 for the year ended September 30, 1994.

Accrued leave: FCA's employees earn annual leave (vacation and personal time) based on years of service and sick leave based on a fixed amount for each employee. Annual leave is accrued as a liability as earned generally up to 240 hours per employee. The liability is based on current pay rates and is reduced as leave is taken. Any outstanding balance is payable to employees upon separation. Sick leave is not vested and is expensed as used.

Health benefits and life insurance: FCA provides health care and life insurance benefits for employees and certain retirees. These benefits are provided either through the Federal governmentwide FEHB plan or a plan available only to a few FCA employees and retirees. Under either plan premium costs are shared between FCA and the retirees and employees. Amounts paid by FCA for health care and life insurance were approximately $614,000 for the year ended September 30, 1994.

NOTE 12. COMMITMENTS AND CONTINGENCIES

FCA is involved in various administrative proceedings, legal actions and claims incidental to its operations. In the opinion of FCA management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not have a material effect on the financial statements.

NOTE 13. CONGRESSIONAL LIMITATION ON ADMINISTRATIVE EXPENSES

Congress places an annual spending limit on the amount of administrative expenses that can be obligated in a given fiscal year, exclusive of reimbursable activities. The statutory limitation for fiscal year 1994 was $40,426,000. During the 1994 fiscal year, FCA had actual obligations of approximately $37,571,000, subject to the limitation. In addition, during fiscal year 1994, FCA incurred obligations of approximately $408,000 related to reimbursable activities.

NOTE 14. RECONCILIATION OF BUDGET AND ACTUAL EXPENSES

The reconciliation between budgetary obligations and accrued expenses as of September 30, 1994 is as follows:

Budget resources	$41,476,872
Budgetary obligations:	
Direct	$37,570,594
Reimbursed	407,612
	$37,978,206
Actual expenses	$37,266,146
Add:Fiscal year 1994 undelivered orders	1,602,292
Fiscal year 1994 purchases of fixed assets	117,092
Less:Fiscal year 1994 depreciation expense	(260,559)
Rate stabilization fund adjustment	(50,539)
Liquidation of prior year undelivered orders	(696,226)
Budgetary obligations	$37,978,206

Additional Information

This report is published in accordance with Section 5.17(a)(3) of the Farm Credit Act of 1971, as amended. A more comprehensive discussion of the financial condition and performance of the Farm Credit System may be found in the Farm Credit Administration's quarterly reports: *Risk Analysis of Farm Credit System Operations*, published for the quarters ended March 31 and September 30, 1994, and *Risk Analysis of Farm Credit System Operations and Economic Outlook*, published for the quarters ended June 30 and December 31, 1994. These publications and annual reports of the Farm Credit Administration for the past 5 years, depending on availability, may be obtained without charge from the Office of Congressional and Public Affairs, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090; telephone (703)883-4056.

Disclosure to investors in Farm Credit System securities is made by the Federal Farm Credit Banks Funding Corporation through annual and quarterly information statements, published as part of the *Report to Investors*, and through its *Summary Report of Condition and Performance of the Farm Credit System*, which is published each quarter. Copies of these reports for the current and two preceding fiscal years are available without charge from the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, NJ 07302; telephone (201)200-8000.

The Farm Credit System Insurance Corporation, which ensures the timely payment of principal and interest on insured securities issued by Farm Credit System banks, publishes an annual report. Copies of the 1990 through 1994 annual reports may be obtained, subject to availability, from the Farm Credit System Insurance Corporation, 1501 Farm Credit Drive, McLean, VA 22102-0826; telephone (703)883-4380.

In addition, Farm Credit System banks and associations are required by Federal regulation to make annual and quarterly financial disclosures to their stockholders. Copies of these documents for the preceding five years are available for public inspection at the FCA's headquarters in McLean, Virginia.